General Dynamics (UK) Limited Retirement and Death Benefits Scheme

Annual Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ("SIP") produced by the Trustees of the General Dynamics (UK) Limited Retirement and Death Benefits Scheme (the "Scheme") has been followed during the year to 5 April 2020. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator. This Implementation Statement covers both the Defined Benefit ("DB") and Defined Contribution ("DC") Sections.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the **Scheme's DB and DC section** are included in the SIP in the appendix of this document.

Review of the SIP

During the year, the Trustees reviewed the Scheme's SIP. A revised SIP was signed in September 2019 which was updated to include the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change risk, reflecting requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- The Trustee's approach to stewardship including engagement of investments and the processes followed by the Trustees in relation to voting rights and stewardship.
- Financially material considerations (including environmental, social and governance considerations and climate change risk).

Assessment of How the Policies in the SIP have been Followed for the year to 5 April 2020

The information provided in this section highlights the work undertaken by the Trustees during the year, and longer term where relevant. The SIP is attached as an Appendix and sets out the policies referenced below.

Securing Compliance with the Legal Requirements about Choosing Investments

Over the year to 5 April 2020, the Trustee confirms that advice was received from its investment adviser in relation to:

- Two significant changes to the Scheme's DB investment strategy, in preparation of the Scheme's long term plan of purchasing a Bulk Purchase Annuity (BPA) policy to transfer the risk to an insurance company. The first stage involved de-risking the Scheme's portfolio, by transitioning out of the passive equity funds managed by Legal and General Investment Management (LGIM), the LGIM Managed Property Fund and the Nordea Diversified Return Fund; and investing into a passive gilts fund also managed by LGIM. The second stage was aimed at matching the Scheme's assets to its liability profile, to best match the movement in insurer pricing; this was achieved through transitioning the current LGIM portfolio into the LGIM Buyout Aware Fund range. Advice was delivered in August 2019 and the changes were implemented in two tranches during September and November 2019.
- The Trustees entered into the BPA with Legal and General Assurance Society Limited (LGAS) in November, and left a residual amount of assets in the LGIM Buyout Aware Fund Range to cover GMP Equalisation Liabilities and any remaining Scheme expenses.
- In May 2019 an investment manager change occurred within the DB section. The Scheme switched out of the Standard Life Global Absolute Return Strategies Fund and invested into the Nordea Diversified Return Fund.

Kinds of Investments to be Held

The Trustees previously aimed to review the Scheme's investment strategy on a triennial basis or following any significant changes to the Scheme, however now that the majority of the assets are considered to be an annuity policy, reviews may be held less frequently.

For the DB Section, the basis of the Trustees' strategy was to divide the Scheme's assets between a Growth portfolio, aimed at generating a long-term excess return over the Scheme's liabilities; and a matching portfolio consisting of Liability Driven Investments & UK gilts, to match a portion of the changes in the value placed on the liabilities from changes in long term interest rates and inflation. The Trustees currently sets the investment portfolio to match the movement in insurer pricing.

As at 5 April 2020, the Scheme's investment strategy comprises of the Buyout Aware Fund range. The Buyout Aware Fund aim to provide a diversified exposure to assets that reflect the investments underlying a typical bulk annuity insurance policy (otherwise known as a buy-in or a buy-out). These Funds reference a liability profile with a combination of long and short durations, and both fixed interest rate and real rate (i.e. inclusive of inflation) sensitivity.

For the DC section, the Trustee has selected a range of investment options for members to utilise in structuring their assets according to their individual objectives.

The Trustees recognise that members of the DC Section of the Scheme have differing investment needs and that these may change during the course of members' working lives.

The Trustees believe that members should be encouraged to make their own investment decisions based on their individual circumstances. The Trustees regard their duty as making available a range of investment funds that will suit members' needs and risk tolerances through their working life.

The Trustees recognise that members may not believe themselves qualified, or may not wish to make their own investment decisions. As such, the Trustees makes available a default investment strategy, the 'Flexible Glide path: 10 Year (Default)' Strategy. The Trustees acknowledge that this strategy will not meet the needs of every individual member.

The underlying funds chosen by the Trustees to be made available to members are pooled fund vehicles operated by LGIM and Columbia Threadneedle Investments, to which the Trustees have effectively delegated day to day investment decisions to the fund provider

The Balance between Different Kinds of Investments

The strategic asset allocation of the default investment option is reviewed on a triennial basis. Prior to 5 April 2020, the date of the last review was July 2018 (at the time of writing this document the DC section had been reviewed in August 2020), when the Trustees introduced a new lifecycle option for the DC section ('Flexible Glide path: 10 Year (Default)') which became the new DC default option. This confirmed that the strategic asset allocation was appropriate to meet the stated aims and objectives of the default option. A review of the self-select options also formed part of the triennial investment review and the Threadneedle Multi Asset Growth Fund was added as a self-select option as a result.

The Trustees receive a quarterly investment performance report that helps monitor the risk and return of options within the Scheme for both DB and DC section of the Scheme from LGIM.

Risks, Including the Ways in which Risks are to be Measured and Managed

The Trustees recognise risk (both investment and operational) arise from the Scheme's assets. As detailed in Section 7 of the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, the choice of fund managers / funds / asset classes.

The Scheme also maintains a risk register of the key risks, including the investment risks. This rates the impact and likelihood of the risks and summarises existing mitigations and additional actions.

The Trustees reviewed the risks of the Scheme's DB Section assets as part of their strategy review in 2019. The Trustee concluded that the changes in strategy were in line with their risk appetite and strategic goal of a 'Buy-out'.

Regarding the DC Section's investments, members can combine the investment funds in any proportion in order to achieve the desired level of return and risk in line with their own attitude towards, and tolerance of risk.

Within the default option, the strategic asset allocation is set to achieve the expected return required to meet the objective of the default option.

The asset allocation of the default investment option for the DC Section is reviewed on at least a triennial basis, in line with regulatory requirements. Prior to 5 April 2020, the date of the last review was July 2018. The review considered the diversification of the underlying fund structure, projected fund values for different demographics of the membership, and wider market trends at retirement. A new DC default lifecycle option was adopted as a result, which targets 25% in cash, 25% in a multi asset fund, 25% in global equity and 25% in UK government bonds at retirement; however, no changes have been made to the DC default arrangement during the year ending 5 April 2020. This default option remains appropriate to meet a typical member's requirements for income drawdown.

The Trustees receive a quarterly investment performance report from LGIM that helps monitors the risk and return of the funds used within the DC Section of the Scheme.

Expected Return on Investments

The funds available are expected to provide an investment return commensurate with the level of risk being taken. In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns. The objective of the DC default is to generate returns in excess of inflation during the growth phase and de-risk towards the target retirement date to match the member's risk profile.

An investment performance report is reviewed by the Trustee on a quarterly basis and includes the risk and return characteristics of the invested assets.

The investment performance report includes how each investment manager is delivering against their specific benchmark.

Over the 3 years to 31 March 2020, the DB Scheme Section has returned 4.4% p.a., on a net of fees basis. Over the year to 31 March 2020, the DB Scheme Section has delivered 3.6%, on a net of fees basis.

Realisation of Investments

The Trustees' administrators will realise assets following member requests on retirement or earlier as required. The Trustees consider the liquidity of the investment in the context of the likely needs of members.

For the DC section, The Trustees consider the liquidity of the investment in the context of the likely needs of members.

For the DB section, the funds are weekly dealt pooled investment vehicles.

ESG and Climate Change Engagement

The Scheme's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change risk (Section 5). This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by their LGIM on responsible investment which covered ESG factors, stewardship, climate change and ethical investing in relation to the ESG focused LGIM Future World Fund range. This training was provided in October 2019 at the Scheme's Investment Sub-Committee Meeting. Following this training, the Trustees discussed their investment beliefs with their investment consultant to assist the Trustees with establishing their policy in this area. The Trustees keep the policies under regular review, with the SIP subject to review at least annual.

Where managers may not be highly rated from an ESG perspective the Trustees continue to monitor this. When implementing a new manager the Trustees would consider the ESG rating of the manager, where applicable.

The Trustees acknowledge that managers in fixed income do not have a high ESG rating assigned by the investment consultant due to the nature of the asset class where it is harder to engage with the issuer of debt compared with an equity investment.

The Extent (if at all) to which Non-Financial Matters are taken into account in the Selection, Retention and Realisation of Investments

Individual member views regarding social, environmental and ethical issues and non-financially material issues are not explicitly taken into account in making day-to-day investment decisions, though they will be considered by the Trustees as and when they arise. Over the year no views were received for consideration.

The Exercise of the Rights (Including Voting Rights) Attaching to the Investments

The Trustees have delegated their voting rights to the investment managers. Investment managers are expected to evaluate a number of factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.

Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.

Investment managers were asked to provide voting summary reporting on a regular basis, at least annually. The reports are reviewed by the Trustees to ensure that they align with the Trustees' policy.

Currently, the Trustees are primarily invested in LGIM pooled funds and the Trustees have access to reporting material, such as the Quarterly ESG Impact Report, which details key voting activity of the manager.

The Trustees did not use the direct services of a proxy voter over the year.

Over the last 12 months, the key voting activity on behalf of the Trustee was as follows:

- **Legal & General Investment Management ("LGIM") Passive Equity Funds**

LGIM has been a signatory to the UK Stewardship Code every year since the inception of the Code and intends on being a signatory for the 2020 code once applicable. LGIM aims to comply with the EU Shareholder Rights Directive II while engaging in voting activity in accordance with the Investment Association's Responsible Investment Framework. Through the Institutional Investors Group on Climate Change, LGIM wrote to EU heads of state and governments highlighting their support for the proposed EU net zero emissions target and to senior officials in the European Commission pressing for a robust methane policy as part of implementing the Green Deal. Voting data is produced by LGIM using data extracted from the manager's third-party proxy-voting provider, Institutional Shareholder Services' ProxyExchange platform, an electronic voting platform used by LGIM's Investment Stewardship team to vote its clients' shares. Over the year to 31 March 2020, the manager recorded a total of 9,818 shareholder meetings where it was eligible to vote, having cast a total of 107,836 votes (c. 98% of resolutions where

LGIM was eligible to vote on), of which c. 82% was voted in line with management and c. 18% was against it.

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation. This includes, but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and / or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign in line with LGIM Investment Stewardship's 5 year ESG priority engagement themes.

Key voting activity:

- FirstGroup 25/06/2019 meeting: Resolution A – Remove Wolfhart Hauser as Director. LGIM voted for.

  Rationale:

  The performance of the company had been weak for a number of years. Following a profit warning in February 2018, the chief executive stepped down.

  On 25 June 2019, shareholder activist Coast Capital convened a shareholder meeting to appoint seven directors to the board of the company and remove six company directors including the board chair and the chief executive.

  Coast Capital made strategy proposals such as: the company exits its rail business; separate the company's US and UK assets; the immediate payment of a dividend.

  David Martin, one of the nominees of the activist, failed to confirm his intention to stand for election before the deadline. The resolution on his appointment to the board could not therefore be validly voted on by shareholders.

  LGIM engaged directly with both sides: the company's Senior Independent Director (SID) and the activist. LGIM also consulted other top shareholders on their views.

  LGIM decided to cast a vote against the board chair to signal our concerns around the pace of execution of the strategy and poor performance. The manager supported the rest of the board and opposed the activist's nominees.

- BP Plc. 21/05/2019 meeting: Resolution 22 - Approve the Climate Action 100+ Shareholder Resolution on Climate Change Disclosures. LGIM voted for.

  Rationale:

  LGIM and other major shareholders put forward a proposal calling on BP to explain how its strategy is consistent with the Paris Agreement on climate change. LGIM worked with the board of BP to secure its support for the motion. At the company's annual general meeting, the proposal was passed with overwhelming approval from shareholders. The manager has since met BP repeatedly – including its chair and incoming CEO – to advise on implementing the resolution. The company has announced industry-leading targets: net zero emissions from its operations, net zero carbon emissions from the oil and gas it digs out of the ground, and a 50% reduction in the carbon intensity of all the products it sells.

- Metro Bank 21/05/2019 meeting: Resolution 10 – Re/elect Sir Michael Snyder as Director. <u>LGIM voted against</u>.

  <u>Rationale:</u>

  LGIM had long-standing concerns regarding Metro Bank due to a lack of independent directors on its board, poor gender diversity, a pay structure not in line with best practice standards, and failure to manage conflicts of interest. In 2019, LGIM's concerns were compounded by the disclosure of material accounting errors within the bank's loan books. The accounting errors led to a significant drop in investor confidence and sent the shares down more than 39% in one day. The lender's share price has remained under pressure and declined over 88% in 2019.

  As a member of the audit committee since 2016, and now chair, the director should be held accountable for the Risk Weighted Asset adjustment, related reputational damage and the approval of significant payments made by the company to a firm providing architectural design owned by the chairman's spouse.

- Bayer AG 26/04/2019 meeting: Resolution 2 – Approve Discharge of Management Board for Fiscal 2018. <u>LGIM voted against</u>

  <u>Rationale:</u>

  Following its acquisition of agribusiness Monsanto, Bayer was asked to pay millions in damages in several court cases where plaintiffs claimed that Monsanto's glyphosate-based weed killer RoundUp was linked to causing cancer. The damages were reduced upon appeal, and Bayer was adamant that RoundUp was not carcinogenic. The manager is concerned that the Bayer supervisory and management boards had not fully considered the significant risks related to glyphosate litigation in the US. Although at the time of the merger agreement in 2016 there were only about a hundred such lawsuits, by the end of 2019, the number grew to over 40,000. From the finalisation of the acquisition in May 2018 until July 2019 Bayer's share price fell by approximately 45%.

  Unrelated to the litigation, LGIM had previously discussed the importance of a lead independent director, particularly in times of crisis. LGIM spoke to the company ahead of its 2019 general meeting to gain a better understanding of the decision-making process in relation to the Monsanto acquisition and the legal advice it received for litigation risk. LGIM recommended establishing advisory and M&A committees, staffed by members appointed with specific expertise; appointing non-executive directors with specific expertise; and appointing new executives. In addition, LGIM suggested that these incidents should have a bearing on remuneration awarded for the year.

- Esssilorluxottica 16/05/2019 meeting: Resolution A, B and C -Elect Wendy Evrard Lane as Director; Elect Jesper Brandgaard as Director; Elect Peter James Montagnon as Director. <u>LGIM voted for</u>

Rationale:

In 2018, French lenses producer Essilor merged with Italian frame manufacturer Luxottica. Upon conclusion of the merger, the executive chair of Luxottica´s holding company (Delfin) owned 32.7% of the merged company's share capital. Under the terms of the merger agreement, the aforementioned executive chairman and Essilor's executive vice-chairman were both given equal powers. A board was also established, with membership split equally between Essilor and Delfin.

In March 2019 an internal disagreement between the two heads of the merged entity occurred. Two of the company's shareholders – Comgest and Valoptec – put forward three board nominees in a bid to break the impasse. LGIM contacted EssilorLuxottica to discuss the issue, but received no reply. LGIM engaged extensively with Comgest, Valoptec and the board nominees and publicly announced its support for the board nominees ahead of the AGM to ensure the current board knew LGIM's intentions and to raise awareness to the other shareholders.

The voting policy of the manager has been considered by the Trustee and the Trustee deems it to be consistent with its investment beliefs.

- **Legal & General Investment Management ("LGIM") Managed Property Fund**

This Fund is a real asset fund and therefore the manager does not voting on behalf of the Fund.

- **Nordea Diversified Return Fund**

Nordea funds use an aggregated voting strategy, which implies that they strive to vote for as large part of their total holdings in any given company as possible. Nordea will vote both by proxy and by attending annual general meetings (and extraordinary general meetings when applicable). Nordea funds utilize two external advisors, Institutional Shareholder Services and Nordic Investor Services (henceforth, "ISS" and "NIS").

ISS is used for the technical expertise and voting platform, as well as their global reach and analysis. NIS is a Nordic proxy advisor, which best practices are similar to those of Nordea's. The two providers are employed to get additional opinions on the issues in question, both from a global best practice and from a Nordic perspective.

Over the 12 month period to 31 March 2020, Nordea conducted 422 votes, out of a possible 1,122. Of which, 58 of these were votes against the decision proposed by the underlying company's management.

Significant votes are those that are severely against Nordea's principle. The process stems from first identifying the most important holdings, based on size of ownership, size of holding, ESG reasons, or any other special reason. From there, we benchmark the proposals against our policy. Examples of significant votes can be seen below*:

- Alphabet - Shareholder Proposal - Establish a Risk Oversight Committee. Nordea voted For

Rationale:

At the Alphabet AGM we supported a number of shareholder proposals, besides Establishment of a risk oversight committee, such as Report on takedown requests and Report on whistleblower policies and practices. Management voting recommendations was against on all of the above mentioned proposals, however Nordea believed that voting ‘for’ the proposal benefits investors and society more generally (given the integral nature of the firm).

- Comcast - Incentive Programs for Management. Nordea voted Against

Rationale:

A typical incentive program for an US company was proposed, which Nordea voted against. Nordea believe that bonuses and share based incentives only should be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders, the proposed incentive program did not meet this criteria.

*The significant votes examples reported above fall within the period 1 October 2019 to 30 September 2020, and should be taken as illustrations of the types of voting that Nordea engages in. At the time of reporting no data specific to the 12 months to 5 April 2020 had been provided.

The voting policy of the manager has been considered by the Trustee and the Trustee deems it to be consistent with its investment beliefs.

The remaining Scheme’s investments are largely sovereign/credit based assets and therefore have no voting rights attached.

Appendix

General Dynamics (UK) Limited Retirement and Death Benefits Scheme

STATEMENT OF INVESTMENT PRINCIPLES ("SIP")

ADOPTED WITH EFFECT FROM 16 SEPTEMBER 2020

General Dynamics UK Limited Retirement and Death Benefit Scheme

Statement of Investment Principles – September 2020

Revision History

Issue/Draft	Date	Comments/Reason for Change
Issue 1	April 2012	Initial Issue
Issue 2	June 2014	Changes to control ranges
Issue 3	August 2017	Introduction of Liability driven investments to DB Scheme
Issue 4	November 2017	New format
Issue 5	August 2018	New Glide path Strategy added and Platform investment
Issue 6	August 2019	Environmental, Social and Governance (ESG) requirements, removal of the Myner's Investment Principles and inclusion of the Pensions Regulators (TPR) code of best practice
Issue 7	September 2020	Updated to reflect Buy in/out of DB section of the Scheme, amended investment strategy and name change. Additional regulatory updates relating to arrangements with the Investment Manager (including remuneration, incentives and long-term objectives). A note of portfolio turnover costs has also been included.

Contents

1. Introduction

Under Section 35 of The Pensions Act 1995, Trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

This statement sets out the principles governing decisions about the investment of the assets of the General Dynamics UK Retirement and Death Benefit Scheme ("the Scheme"). Before preparing it, the Trustees have obtained and considered written professional advice from Mercer as their investment consultants. Prior to finalising the document, they have also consulted with the employer.

This statement supersedes the one prepared by the Trustees in August 2019

The Scheme's assets are held in trust for the Scheme by the Trustees, whose powers of investment are set out in the Trust Deed and Rules.

The Trustees regularly review this Statement on an ongoing basis, and will also do so in response to any material changes to any aspects of the investment arrangements detailed above. Formal reviews will be undertaken no less frequently than every 3 years. Any such review will again be based on written, expert investment advice and will be in consultation with the sponsoring employer.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others and was adopted by the Trustee on 16th September 2020.

Investment Responsibilities

Trustees' Duties and Responsibilities

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives. They carry out their duties and fulfil their responsibilities as a single body.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

The regular approval of the content of the Statement
The appointment and review of the Investment Manager and Investment Adviser
The assessment and review of the performance of each underlying investment manager
The setting and review of the investment parameters within which the investment managers can operate
The assessment of the risks assumed by the Scheme at total scheme level and manager by manager
The approval and review of the asset allocation benchmark for the Scheme
The compliance of the investment arrangements with the principles set out in the Statement

Investment Adviser's Duties and Responsibilities

The Trustees have appointed Mercer as the investment adviser to the Plan. Mercer provides advice as and when the Trustees require it, as well as raising any investment-related issues, which it believes the Trustees should be aware. Matters on which the Mercer expects to provide advice to the Trustees include the following:
Setting of investment objectives.
Determining investment strategy and asset allocation.
Determining an appropriate investment structure.
Advising on appropriate funds.
Setting cashflow management policies (see Appendix 2).

The Trustees may seek advice from Mercer with regard to both strategic and tactical investment decisions (see Section 3 – Investment Decisions); however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cash flows (see Appendix 2). Mercer may be proactive in advising the Trustees regarding tactical investment decisions; however, there is no responsibility placed on Mercer to be proactive in all circumstances.

Mercer monitors the performance of the Plan's investment managers against their benchmarks.
Mercer makes a fund based charge. Any additional services provided by Mercer will be remunerated primarily on a time-cost basis, other than performance reporting which is provided for a pre-agreed fee.

In particular, Mercer does not receive commission or any other payments in respect of the Plan that might affect the impartiality of their advice, and as noted below, any discounts negotiated by Mercer with the underlying managers and these discounts are passed on in full to the Plan.

The Trustees are satisfied that this is a reasonable adviser remuneration structure for the Plan.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

Arrangement with Investment Managers

The Trustees are a long term investor and do not look to change the investment arrangements on a frequent basis. For the invested funds, there is no set duration for the manager appointments. The Trustees will retain an investment manager unless there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.

All the funds are open-ended with no set end date for the arrangement. The fund range and default investment strategy are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default investment strategy or general fund range.

The assets of the Plan are invested directly with the investment managers as detailed in Section 5: Investment Strategy.

The investment managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustees utilises Mercer's forward-looking manager research ratings in decisions around the selection, retention and removal of manager appointments. These ratings are based on Mercer's assessment of the manager's idea generation, portfolio construction, implementation and business management.

Mercer's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure that it remains appropriate and consistent with the wider Trustees' investment objectives.

The underlying managers and funds invested in by the Scheme are determined by the Trustees using a written instruction to the individual investment managers.

In particular, the investment managers are responsible for all decisions concerning the selection and de-selection of the individual securities within the portfolios they manage. In the case of multi-asset mandates, the investment managers are responsible for all decisions concerning the allocation to individual asset classes and changes in the allocations to individual asset classes.

All of the investment managers engaged by the Trustees are authorised and regulated by the FCA.

The investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Plan. The Trustees believe that this is a reasonable basis for remunerating managers.

None of the underlying managers in which the Plan's assets are invested have performance based fees which could encourage the manager to make short term investment decisions to hit their profit targets.

The Trustees therefore consider that the method of remunerating fund managers is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long-term view, it will in turn encourage the investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

The Trustees accept that they cannot influence the charging structure of the pooled funds in which the Plan is invested, but is satisfied that the ad-valorem charges for the different underlying funds are clear and are consistent with each fund's stated characteristics. The Trustees are therefore satisfied that this the most appropriate basis for remunerating the underlying investment managers and is consistent with the Trustees policies as set out in this SIP.

Investment Decisions

The Trustees distinguish between three types of investment decision: strategic, tactical and stock-level:

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions themselves. They do so after receiving written advice from their Investment Adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Scheme benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical investment decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustees. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

Stock Selection Decision

All such decisions are the responsibility of the investment managers of the pooled funds in which the Scheme is invested.

Types of Investment to be Held

The Trustees are permitted to invest across a wide range of asset classes, including, but not limited to, the following:

UK and overseas equities
UK and overseas government bonds, fixed and inflation-linked
UK and overseas corporate bonds
Convertible bonds
Property
Commodities
Hedge Funds
Private equity
High yield bonds
Emerging market debt
Diversified growth
Cash

All the funds in which the Scheme invests are pooled and unitised. The use of derivatives is permitted by the guidelines that apply to the pooled funds.

The Trustees recognise the benefits of diversification across growth asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Trustees have appointed investment managers to select and manage the allocations across growth asset classes, in particular where it would not be practical (or appropriate) for the Trustees to commit the resources necessary to make these decisions themselves.

2. Investment Objectives

• Defined Benefit Section

The Trustees' primary investment objective for the Scheme is to ensure the Scheme's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Scheme as they arise

In order for the Trustees to ensure that they can meet their obligations to the beneficiaries both in the short and long term without recourse to the Company the Trustees have entered into a Bulk Purchase Annuity (BPA) with Legal and General Assurance Society (LGAS).

This approach secures the benefits of the Defined Benefit (DB) Scheme and ensures that all benefits will be met whilst removing the risk of any short fall in benefits, which could occur if General Dynamics United Kingdom Ltd ever became insolvent or was no longer able to support the DB Scheme. It also protects the Scheme from potential placement into the Pension Protection Fund (removing the risk of capped benefits). Further, other material risks (e.g. longevity risk) will be reduced.

Currently the BPA is a Buy-In, which means that LGAS have taken responsibility for paying the benefits as they become due. The Trustees are undertaking a data cleansing stage, this ensures the Trustees and LGAS are confident that all liabilities have been correctly addressed (inclusive of Guaranteed Minimum Pension (GMP) equalisation). After the data cleansing process has been completed, the policy will be considered as a Buy-Out policy with LGAS. In this arrangement, in agreement with the Trustees, LGAS will provide each DB member with their own individual pension policy; at this stage, all responsibility for paying the DB pensions is fully transferred to LGAS.

• Defined Contribution Section (from 20 November 2019 the New Defined Contribution (Sectionalised) Section

The Trustees' main objective is to provide members with an investment strategy aligned to the needs of their members that will optimise the return on investments in order to build up a savings pot which will be used in retirement. The Trustees are mindful of their responsibility to provide members with an appropriate range of investment funds. The long term objective of the Trustees is to enable members to provide adequately for themselves in retirement.

The Trustees recognise that in a defined contribution arrangement, members assume the investment risks themselves. The Trustees further recognise that members are exposed to different types of risk at different stages of their working lifetimes.

The Trustees have determined their investment policy in such a way as to address the risks set out in Section 8 of this Statement. To help mitigate the most significant of these risks, the Trustees have:

Made the lifestyle option available, which transitions members' investment from higher risk investments to lower risk investments as members approach retirement, and

Offered a range of self-select funds across various asset classes.

When deciding on the investment options available to members, the Trustees took into account the expected return on such investments and were mindful to offer a range of funds with varying levels of expected returns for members to choose from.

When it comes to realisation of investments, the Trustees consider the impact of transaction costs before making any changes.

Details of the approach the Trustees have taken to meet these investment objectives are set out in Section 4: Investment Strategy. The Trustees have determined their investment policy in such a way as to address the risks set out in Section 8: Risk of this Statement.

3. Investment Strategy

• Investment Strategy of the Defined Benefit Section

With regards to the investment objectives as laid out in Section 4: Investment Objectives, the Trustees have entered into a BPA. The remaining invested assets have adopted an investment strategy that seeks to match BPA pricing (as confirmed by LGAS) with Legal & General Investment Management (LGIM) as follows:

Manager	Pooled Fund	Benchmark Index	Benchmark Allocation (%)
Columbia Threadneedle	Multi Asset Fund	BoE Base Rate + 4.0% p.a.	21.0
LGIM	Buy Out Aware Real Long	N/A	12.0
LGIM	Buy Out Aware Real Short	N/A	17.0
LGIM	Buy Out Aware Fixed Long	N/A	29.0
Sterling Liquidity Fund	Sterling Liquidity Fund	7 Day LIBID	21.0
Total			**100.0**

The Buyout Aware Fund aim to provide a diversified exposure to assets that reflect the investments underlying a typical bulk annuity insurance policy (otherwise known as a buy-in or a buy-out). These Funds reference a liability profile with a combination of long and short durations, and both fixed interest rate and real rate (i.e. inclusive of inflation) sensitivity. This proportion of the portfolio continues to track a small proportion of Scheme liabilities.

The Threadneedle Multi Asset Fund provide a diversified exposure to a variety of asset classes, and targets a return of the Bank of England's Base Rate + 4.0% per annum. Whilst the Sterling Liquidity Fund invests in cash and money market securities, targeting a 7 day LIBID benchmark, and prioritises capital preservation.

• Investment Strategy of the Defined Contribution Section

The default lifestyle strategy operates as a default if a member does not wish to make their own investment selection. The default is designed to be appropriate for a typical member of the Scheme and is comprised of three white-labelled funds. The default lifestyle strategy is described in more detail below.

Members can opt out of the default strategy, and invest in an alternative lifestyle or any investment fund made available in the self-select fund range as described below.

Default Lifestyle Strategy

The Trustees have assumed responsibility for setting an investment strategy that provides a broad level of protection against the key risks identified in Section 8. This is achieved by using a lifestyle strategy.

In determining the investment strategy, the Trustees undertook extensive investigations and have received formal written investment advice from their investment consultants. The Trustees have explicitly considered the trade-off between risk and expected returns. The expected amount of risk is considered appropriate for the typical member and will differ by member depending on their age as well as their expected retirement date. Further information is set out below:

The Trustees have adjusted the default arrangement (“Glide Path Strategy”) in response to the UK Government changes to pension flexibility in April 2015. Traditionally, the default glide path was the glide path now referred to as the ‘Annuity Glide Path’. A new ‘Flexible Glide Path’ strategy designed to allow a portion of members fund to remain in growth assets has been introduced, which has now become the standard default arrangement.

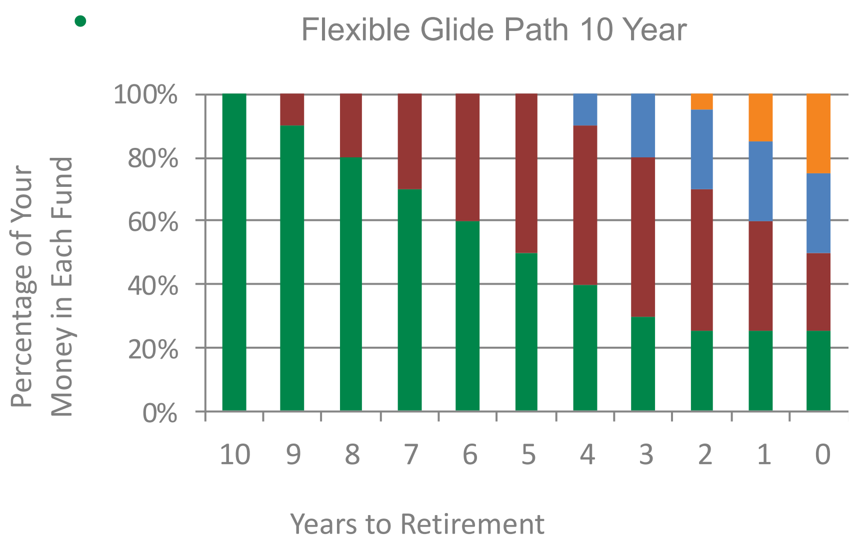
The default strategy is split into two distinct phases, as described below. The Trustees have selected the funds to be used within the default arrangement, and the additional ‘Glide path’ options.

- **The Growth Phase** (more than 10 years from members’ chosen retirement age), invests members’ retirement savings to a greater level of risk in order to achieve higher returns while members are further away from retirement. During this phase, all savings are invested in the LGIM Global Equity fixed Weights 50:50 – GBP Hedge Fund.

- **The ‘Transitional’ Phase** (between 10 and 0 years from members’ chosen retirement age), aims to gradually switch investments into funds with less risk closer to retirement. During this phase, member savings gradually switch from the LGIM Global Equity Fund Fixed Weights 50:50 – GBP Hedge Fund, into the Threadneedle Multi Asset Fund, into the LGIM Over 15 Year Gilts Index Fund and the LGIM Cash Fund.

- *1: Flexible Glide path: 10 Year (Default)*

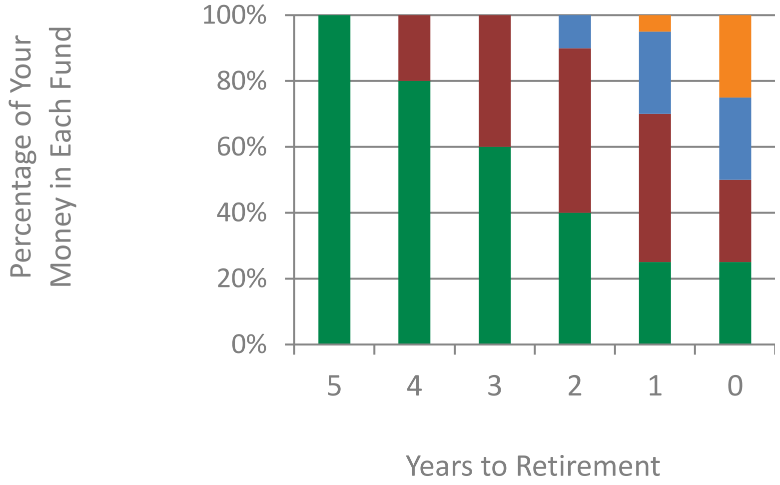
This glide path is for members, who are either unsure of how they will use their pension or who wish to take advantage of flexible drawdown at retirement. The 'Flexible' strategy has phased switching commencing 10 years before target retirement date of 65 (default) - or as per member instructions.



Alternative Arrangement Strategies

- *1: Flexible Glide path: 5year*

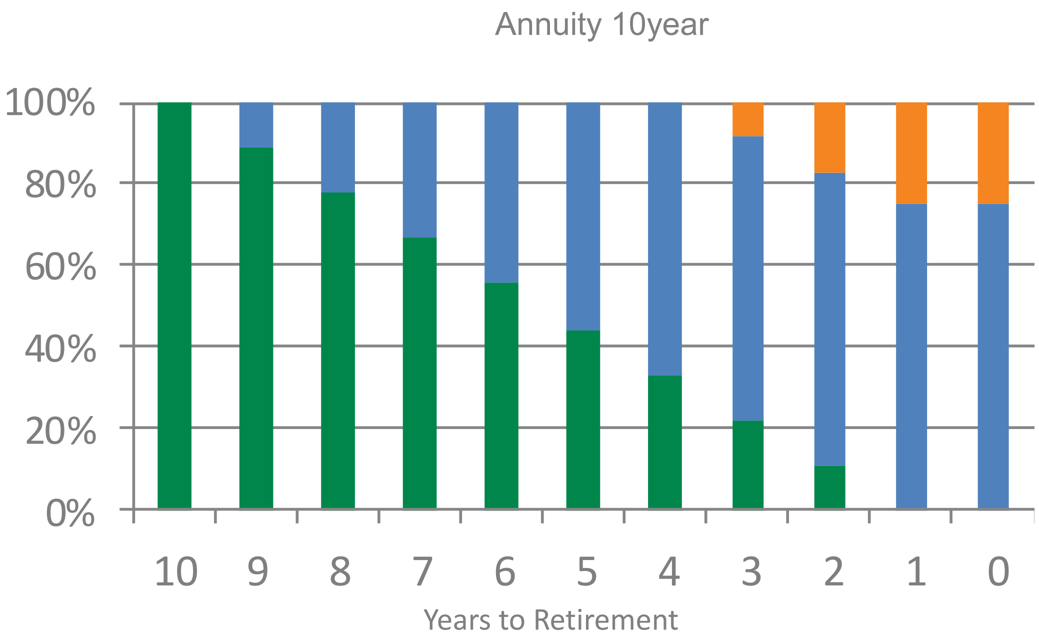
This glide path is for members, who are either unsure of how they will use their pension or who wish to take advantage of flexible drawdown at retirement. The 'Flexible' strategy has phased switching commencing 5 years before target retirement date of 65 (default) - or as per member instructions.

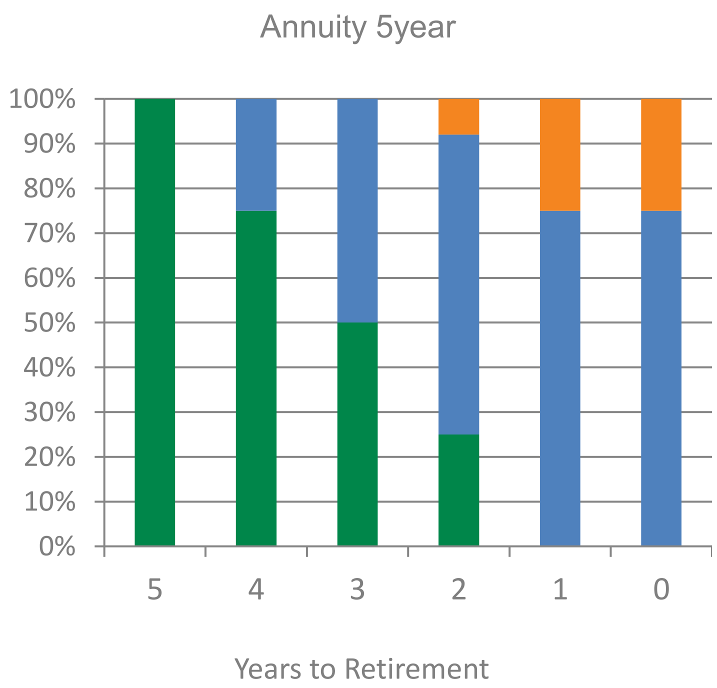


Key:
- Growth Fund
- Diversified Growth Fund
- Secure Fund
- Cash Fund

- *2: Annuity Glide paths 10year and 5year (formally called Glide path 10/5)*

These Glide paths are for members, targeting an Annuity at NRA. The 'Annuity' strategy has phased switching commencing 10 (or 5) years before normal retirement age (NRA) of 65 as set out below.





Key:
- Growth Fund
- Diversified Growth Fund
- Secure Fund
- Cash Fund

- Core Funds

Growth Fund - Global Equity Fixed Weights (50:50) Index Fund GBP Currency Hedged
This fund will have on average a UK equity exposure of 50% and 50% to developed overseas equities. This type of fund protects against "investment-return" risk. It aims to track the composite equity benchmark index. A global equity fund offers some diversification, with a portfolio invested in European (ex. UK); North American; Japan; and Asia Pacific equities. This diversification of equities helps spread the risk among different markets and is aimed towards investors who have a long-term investment strategy.

Diversified Growth Fund - Columbia Threadneedle Multi Asset Fund
The portfolio will include exposure to equities, fixed income, commodities, property and absolute return funds. It aims to achieve total returns equivalent to cash plus 4% per annum, gross of fees, over the economic cycle (expected to be 5-7 years).

Secure Fund Over 15 Year Gilts Index Fund
This fund invests in UK government bonds which have a maturity date of greater than 15 years. It aims to track the return of the FTSE A Govt (over 15 year) index. This type of fund helps to protect members against annuity-rate risk.

Cash Fund
This fund invests only in short-term deposits, which are not subject to volatility in capital-value terms. It aims to match the median CAPS return and is measured against the 7 Day LIBID rate. This type of fund helps to protect members against "lump sum" risk.

- Additional Freestyle Funds

In order to provide members with investment choice from 1 April 2005 a 'freestyle' range of funds are available. The funds passively managed by LGIM are indicated by being labelled as "Index" funds and aim to track the relevant index within reasonable tolerances. Otherwise they are actively managed. The Core Funds above are also available to use as part of Freestyle choices.

UK Equity Index Fund
The fund invests in UK listed companies and aims to track the return of the FTSE All-Share index. This type of fund protects against "investment-return" risk.

World (ex UK) Equity Index Fund
This fund invests in listed companies in developed markets globally, excluding the UK market. It aims to track the return of the FTSE World (ex UK) index. This type of fund protects against "investment-return" risk.

Property Fund
This fund invests in UK freehold and leasehold commercial property. This type of fund protects against "investment-return" risk and gives diversification to other traditional growth assets such as equities and is aimed towards investors who have a long term investment strategy. It aims to exceed the AREF/IPD UK Quarterly All Balanced Property Fund Index (UK PFI) over three and five year periods. During periods of severe market volatility, the Manager may be unable to accurately value the underlying property investments within the Fund. As a result, a suspension of contributions to/withdrawals from the Fund may be applied (see Section 5 – Technical Default).

Over 5 Year Index-linked Gilts Index Fund
This fund invests in UK government bonds which have a maturity date of greater than 5 years and are linked to RPI inflation. It aims to track the return of the FTSE A Index-linked (over 5 year) index. This type of fund helps to protect members against "annuity-rate" risk, where annuities are linked to inflation.

AAA-AAA Fixed Interest Over 15 year Index Fund
This fund invests in UK corporate bonds which have a maturity date of greater than 15 years, and where their credit rating is no less than A. It aims to track the iBoxx £ Non-Gilts (ex BBB) over 15 year index. This type of fund helps to protect members against "annuity-rate" risk.

Cash Fund
This fund invests only in short-term deposits, which are not subject to volatility in capital-value terms. It aims to match the median CAPS return and is measured against the 7 Day LIBID rate. This type of fund helps to protect members against "lump sum" risk.

Asia Pacific (ex Japan) Equity Index Fund
This type of fund invests in listed companies in developed markets in the Asia Pacific region excluding Japan. The fund aims to track the return of the FTSE AW Developed Asia Pacific (ex Japan) index. This type of fund protects against "investment-return" risk.

Global Emerging Markets Equity Index Fund
This type of fund invests in listed companies in developing economies and markets worldwide. It aims to track the return of the S&P/ IFC Composite Global Emerging Markets index. This type of fund protects against "investment-return" risk.

UK Smaller Companies Index Fund
The fund invests in UK listed small cap companies and aims to track the return of the FTSE Small Cap index. This type of fund protects against "investment-return" risk.

- Additional Voluntary Contributions

AVCs are available within the Scheme itself. Members can make AVC contributions either through the salary sacrifice process as part of their annual Dynamic Benefit selection or alternately members can make ad hoc AVC payments throughout the year, as a regular saving or through a lump sum payment. Members can set and amend their employee sacrifice percentage via BENPAL.

Historically the Scheme provided a facility with (Utmost Life and Pensions) Equitable Life for members to pay Additional Voluntary Contributions ("AVCs"). This arrangement is now closed to new members.

4. Technical Default

In accordance with Section 4 – Restrictions on Charges of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 No. 879, the Trustees have identified that the LGIM Cash Fund held by the DC section of the Scheme has become a "technical default" arrangement (as defined by these regulations).

During the outbreak of COVID-19 in March 2020, the LGIM Managed Property Fund announced a temporary suspension of trading due to the severe disruption of the property valuation process. As a result, the Trustees decided to divert any contributions intended for the LGIM Managed Property Fund into the LGIM Cash Fund.

These funds have therefore been identified as "technical defaults" as members' assets have been automatically directed to these funds without members having instructed the Trustees where their assets are to be invested.

Whilst the LGIM Cash Fund does not aim to deliver capital appreciation, unlike the LGIM Managed Property Fund, it is significantly more effective at preserving capital and entails amongst the lowest investment management fees when compared to the other freestyle funds available. As such, it was deemed the most appropriate alternative investment whilst market volatility remained elevated.

5. Responsible Investing

Financially Material Considerations

In setting the DB investment strategy, the Trustees have prioritised assets which provide protection against movements in the Scheme's liability value; more generally, the Trustees seek assets which provide diversification across a wide range of investment markets and considers the financially significant benefits of these factors to be paramount.

However, the Trustees understand that they must aim to consider all factors that have the ability to impact the financial performance of the Scheme's investments over an appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

The Trustees believes that investing with a manager who approaches investments in a responsible way and takes account of ESG-related risks will lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken.

However, the Trustees note that ESG considerations are not paramount to the first level decision making process within the funds which provide either actively managed diversification or leveraged liability protection. In the actively managed Diversified Growth Funds in which the Scheme invests, whilst managers typically do not put ESG considerations at the heart of the asset allocation decision, they will embed ESG considerations into the management of the underlying asset classes where it is appropriate to do so.

As noted earlier, the Scheme's assets are invested in pooled funds. The Trustees accept the fact that they have very limited ability to influence the ESG policies and practices of the companies in which their managers invest. The Trustees will therefore rely on the policies and judgement of their investment manager.

The Trustees are therefore satisfied that ESG factors are appropriately reflected in the overall investment approach.

Non-Financial Considerations

The Trustee's objective is that the financial interests of the Scheme members are its first priority when choosing investments.

It has decided not to consider non-financial considerations, such as ethical views, or to take members' preferences into account when setting the investment strategy.

However, the Trustees believe that they have a good understanding of membership demographics, behaviours and preferences and, where appropriate, strive to provide a fund range that meets both financial and non-financially relevant member needs.

Stewardship: Corporate Governance and Voting Policy

The Scheme is invested solely in pooled investment funds. The Trustees' policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long-term financial interests of investors.

The Trustee notes that the investment managers' corporate governance policies are available on request and on their respective websites.

The Trustees are supportive of the UK Stewardship Code published by the Financial Reporting Council and encourage the Scheme's underlying managers who are regulated by the Financial Conduct Authority to comply with the UK Stewardship Code. Such managers are expected to report on their adherence to the Code on an annual basis. For managers that choose not to comply with any of the principles in the UK Stewardship Code, or not to follow the guidance at all, the Trustees will request a clear rationale from the managers on their alternative approach to stewardship. The Trustees review the investment managers' policies and engagement activities (where applicable) on an annual basis.

Where the Trustees are specifically invited to vote on a matter relating to corporate policy, the Trustees will exercise its right in accordance with what it believes to be the best interests of the majority of the Scheme's membership.

The Trustees will monitor the performance, strategy, risks, ESG policies and corporate governance of the investment managers. If the Trustees have any concerns, they will raise them with the respective managers, verbally or in writing.

Member Views

Whilst the Trustees do not explicitly take account of member views when selecting investments for the Scheme, they are always in open discussion with their members. The Trustees believe that they have a good understanding of membership demographics, behaviours and preferences and strive to provide a fund range that meets both financial and non-financially relevant member needs. Furthermore, the Trustees have and will continue to consult with the Sponsoring Employer to ensure that the Scheme's investments are aligned with the overall values and principles of the Employer.

6. Risk

The Trustees are aware, and seek to take account, of a number of risks in relation to the Scheme's investments, including those set out below. Under the Pensions Act 2004, the Trustees are required to state their policy regarding the ways in which risks are to be measured and managed. The Trustees recognise that in a defined contribution money purchase arrangement, members assume the investment risks themselves and members are exposed to different types of risk at different stages of their working lifetimes.

Broadly speaking, the main types of investment risk can be identified are as follows:

<table>
<tr><th>Type of Risk</th><th>Risk</th><th>Description</th><th>How is the risk monitored and managed?</th></tr>
<tr><td colspan="4">Risks affecting the DB and DC sections of the Scheme</td></tr>
<tr><td rowspan="2">Market Risk</td><td>Inflation Risk</td><td>The risk that a member's investments will not grow quickly enough to sufficiently outpace inflation (the cost of living).</td><td rowspan="2">DB:
The majority of the market risk is mitigated by the buy-in policy held with LGAS. For the remaining invested assets, the Trustees will ensure that they are comfortable with the amount of risk that the Scheme's investment manager takes and will ensure assets are invested in a diverse portfolio across various markets.

DC:
The Trustees make available a range of funds across various asset classes, with the majority expected to keep pace with inflation.

Members are able to set their own investment allocation, in line with their risk tolerances.</td></tr>
<tr><td>Interest Rate Risk</td><td>This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.

Changes to Interest Rates will affect the market price of annuities, which therefore affects the amount of guaranteed pension that members of the DC section will be able to purchase with their savings at retirement.</td></tr>
</table>

	• **Currency Risk**	This is the risk that occurs when the price of one currency moves relative to another (reference) currency. The Scheme may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.	
	• **Credit Risk**	This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.	
	• **Other Price Risk**	This is the risk that principally arises in relation to the return seeking portfolio, which invests in equities, equities in pooled funds, equity futures, hedge funds, private equity and property.	

• **Environmental, Social and Governance ("ESG") Risks**	This is the risk that ESG concerns, including climate change, have a financially material impact on the return of the Scheme's assets. These risk factors can have a significant effect on the long-term performance of the assets the Scheme holds.	Where applicable these factors will be considered in the investment process but is considered the responsibility of the investment manager. Please see Section 6 for the Trustees' responsible investment statement.
• **Manager risk**	This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.	It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process through the quarterly performance updates provided by Mercer. In addition, Mercer monitor and replace any managers (following discussion with the Trustees and written authorisation from the Trustees) where concerns exist over their continued ability to deliver the investment mandate.
• **Liquidity risk**	The risk that the Scheme's assets cannot be realised at short notice in line with member or Trustees' demand.	As far as is practicable and necessary, the Trustees invest in liquid assets that can be quickly realised as required. It is managed by investing only in readily realisable pooled funds that can be bought and sold on a daily basis.
• **Legislative Risk**	This is the risk that legislative changes will require action from the Trustees so as to comply with any such changes in legislation.	The Trustees acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

DB-specific risks		
• **Sponsor Risk**	This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.	This risk is typically managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor. However, due to the buy-in policy held with LGAS the DB Scheme is not highly dependent on the Sponsoring Employer.
• **Solvency Risk**	The risk that the Scheme will be unable to meet its liabilities in the long-run.	The risk is mitigated the buy-in policy held with LGAS

DC-Specific Risks		
• **Pension Conversion Risk**	This is the risk where assets are invested to target a specific retirement objective which differs from how members are expected to use their pots at retirement.	Members may target different retirement outcomes by selecting different Glide path and self-select fund options. For example, the Over 15 Years Gilts Index Fund can be used to target annuity-purchase in retirement.

Whilst the Trustees identify and manage a large proportion of the risks faced by the Scheme, it is not possible to completely eradicate a number of the above risks.

Realisation of Investments

The funds are both weekly dealt (DB Scheme) and daily-dealt (DC Section) pooled investment arrangements, with assets mainly invested in regulated markets, and therefore should be realisable at short notice, based on either Trustees' or member demand. The selection, retention and realisation of investments within the pooled arrangements are the responsibility of the relevant investment manager.

7. Monitoring of Investment Adviser and Managers

Investment Adviser

The Trustees continually assess and review the performance of their Investment Adviser in a qualitative way.

Investment Managers

The Trustees receive quarterly monitoring reports on the performance of the underlying investment managers from LGIM, which presents performance information over 3 months, 1 year and 3 years. The reports show the absolute performance and performance against the manager's stated target performance (over the relevant time period) on a net of fees basis. It also provides returns of market indices so that these can also be used to help inform the assessment of the underlying managers' performance.

The Trustees, with assistance from Mercer, as Investment Adviser to the Scheme, have the role of replacing the underlying investment managers where appropriate. A long-term view is adopted when assessing whether to replace the underlying investment managers, and such decisions would not be made based solely on short-term performance concerns. Instead, changes would be driven by a significant downgrade of the investment manager by Mercer's Manager Research Team. This in turn would be due to a significant reduction in Mercer's confidence that the investment manager will be able to perform in line with their fund's mandate over the long term.

The Trustees also monitor the stewardship track record of the Scheme's underlying investment managers on an annual basis and will take action if this is found inconsistent with appropriate long-term return generation.

Portfolio Turnover Costs

Portfolio turnover costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments.

For the Scheme's DB section, the Trustees do not currently monitor portfolio turnover costs for the funds in which the Scheme is invested, although notes that the performance monitoring which it receives is net of all charges, including such costs.

For the DC section, the Trustees consider portfolio turnover costs as part of the annual Chairman's Statement.

The Trustees are also aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

Given that the Scheme invests in a range of pooled funds, many of which invest across a wide range of asset classes, the Trustees do not have an overall portfolio turnover target for the Scheme.

The Trustees are working with Mercer to determine the most appropriate way to obtain and monitor the information required in relation to the pooled funds in which the Scheme is invested and will include further information about this when next updating the SIP.

8. Code of Best Practice

Define Benefit

The Trustees note that in September 2019, the Pensions Regulator released 'Investment Guidance for Defined Benefit Pension Schemes'.

The Trustees have received training in relation this guidance and are satisfied that the investment approach adopted by the Scheme is consistent with the guidance so far as it is appropriate to the Scheme's circumstances. The Trustees meet with their investment adviser on a regular basis, monitoring developments both in relation to the Scheme's circumstances and in relation to evolving guidance, and will revise the Scheme's investment approach if considered appropriate.

Defined Contribution

The Pensions Regulator has published a code on standards for DC schemes and this came into effect in November 2013 as part of a wider initiative to get DC right. This was updated further on 28 July 2016 and this revised version is shorter and simpler than its predecessor and has been updated to include the DC flexibilities and governance legislation introduced from April 2015.

The Code of Practice 13 on the governance and administration of occupational DC trust based schemes places bigger than ever emphasis on good quality investment arrangements and stricter requirements for reviewing these on the Trustees. Particular attention has to be paid to the design of default strategies and on-going monitoring of their continuing suitability for scheme membership. The Code can be found here:

https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-13-governance-and-administration-of-occupational-trust-based-schemes-providing-money-purchase

When formulating their investment policy, the Trustees have acted in line with the Code of Practice 13.

Appendix 1: Third Party Arrangements

• Advisors

The following advisors assist the Trustees:

Scheme Actuary	Adam Bracken Mercer Tower Place West, London EC3R 5BU
Auditor	Gary Purdy RSM LLP Hanover House, 18 Mount Ephraim Road, Tunbridge Wells, Kent, TN1 1ED
Investment Consultant	Dorian Whitehead Mercer Tower Place West, London EC3R 5BU
Lawyer	Hogan Lovells Atlantic House, Holborn Viaduct, London, EC1A 2 FG
Pensions Consultant	Kelly Buckland Mercer Tower Place West, London EC3R 5BU

• Investment Managers

The Trustees have appointed the following investment managers:

Legal and General Investment Management
One Coleman Street
London
EC2R 5AA

Columbia Threadneedle Investments
78 Cannon Street
London
EC4N 6AG