General Dynamics UK Limited

Retirement and Death Benefit Scheme

Statement of Investment Principles – September 2023

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.
Issue 8	September 2023	Removal of the Defined Contribution Section from Statement of Investment Principles – September 2020

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 September 2020

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 12th September 2023.

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 Scheme. 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.

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. 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 Scheme'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 Scheme 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 Scheme.

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

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 is 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 fund in place in the general fund range.

The assets of the Scheme are invested directly with the investment managers as detailed in Section 4: 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 Scheme. The Trustees believe that this is a reasonable basis for remunerating managers.

None of the underlying managers in which the Scheme'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 Scheme 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.

2. 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.

3. Investment Objectives

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 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 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 Scheme member with their own individual pension policy; at this stage, all responsibility for paying the Scheme pensions is fully transferred to LGAS.

4. Investment Strategy

With regards to the investment objectives as laid out in Section 3: 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	SONIA	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.

5. Responsible Investing

Financially Material Considerations

In setting the Scheme's 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 Trustees' objective is that the financial interests of the Scheme members are their 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 Trustees note 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.

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

Type of Risk	Risk	Description	How is the risk monitored and managed?
Risks affecting the Scheme			
Market Risk	**Inflation Risk**	The risk that investments will not grow quickly enough to sufficiently outpace inflation (the cost of living).	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.
	Interest Rate Risk	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.	

	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.
Other 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 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

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 weekly dealt 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) gross of fees. 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.

The Trustees do not currently monitor portfolio turnover costs for the funds in which the Scheme is invested, and note that the performance monitoring which it receives is gross of all charges.

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

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.

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	John Brogan 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