

QinetiQ Pension Scheme – Defined Contribution Arrangements ("The Scheme")

Annual statement by the Chair of the Trustee for the year to 30 June 2021

Introduction

This Statement covers the period from 1 July 2020 to 30 June 2021. On 11 May 2021, the DC Section was transferred to the Mercer Master Trust. The information within this Statement in respect of the DC Section therefore covers only the period up to the date of transfer. By contrast the AVC arrangements continue to be part of the Scheme.

A copy of this Statement, together with the following documents are posted on line at

<https://www.qinetiq.com/en/our-company/sustainability/health-safety-and-wellbeing>:

- The latest Statement of Investment Principles as at 15 January 2021 (this is also appended to this Statement at Appendix 1).
- An implementation statement setting out how the Trustee complied with the Statement of Investment Principles during the year to 30 June 2021.

A copy of the Scheme's annual report and accounts for the year to 30 June 2021 is available on request.

1 Investment options

Default arrangements

Primary default arrangement

The Scheme's primary default arrangement, the Drawdown Lifestyle Fund, was designed for members who joined the Scheme and did not choose an investment option. The Trustee was responsible for the governance of the primary default arrangement which included setting and monitoring its investment strategy.

The Trustee decided that the primary default arrangement should be a lifestyle strategy, which meant that members' contributions were automatically moved between different funds as they approached their selected retirement date.

The main investment objectives for the primary default arrangement were to:

- Manage the main investment risks members faced during their membership of the Scheme;
- Give good member outcomes at retirement by maximising investment returns, relative to inflation, while taking an appropriate level of risk for the majority of members who did not make investment choices; and
- Reflect members' likely benefit choices at retirement.

The Statement of Investment Principles ("SIP"), which is appended at Appendix 1, covers all the Scheme's DC investments – the principles guiding the design of the primary default arrangement are set out on pages 2-3 and pages 6-11 of the SIP.

Monitoring the Primary default arrangement

The Trustee monitored the performance of the primary default arrangement every quarter. Whilst the last review of the primary default was completed on 17 August 2017, the Trustee have in the last year focussed on reviewing the default arrangement of the Mercer Master Trust to ensure it is at least as good as the Scheme's default.

The Trustee believed that the primary default arrangement was appropriate for the majority of the Scheme's members because it took into account the Scheme's membership profile, including:

- The age and salary profile;
- The likely sizes of pension accounts at retirement;
- Previous sources of retirement income from the Employer; and
- Members' likely benefit choices at and into retirement.

Other default arrangements

Unusually the following funds became "default arrangements" for some members whose contributions were redirected by the Trustee without their consent:

- SW BlackRock Sterling Liquidity fund (the "Liquidity fund")
- PIMCO GIS Income Fund (the "PIMCO" fund)

The main investment objectives for these other default arrangements were to either:

- Preserve the value of member contributions to enable these contributions to be easily reinvested by the member into a different fund, with minimal transaction costs, should they choose to do so; or
- Replicate as far as possible the risk and return characteristics of a fund that has closed or is no longer rated positively by the Trustee's investment adviser.

The Liquidity fund had substantial liquidity and provided a low volatility in terms of the fluctuation of underlying asset prices, so met the first of the above objectives.

The PIMCO fund replicated as far as possible the risk and return characteristics of the Kames Absolute Return Bond Fund, and therefore met the second objective above.

During the Scheme year the Trustee reviewed the performance of the other default arrangements every quarter. The objectives of these other default arrangements are set out on pages 2-3 and pages 6-11 of the SIP (see Appendix 1).

Other investment options

Cash lifestyle and self-select funds

The DC Section of the Scheme also offered members a choice of other investment options including an alternative Cash lifestyle option and self-select funds. The main objectives of these investment options were:

- To cater for the likely needs of a wider range of members;
- To cater for members looking to take different benefits at retirement than those targeted by the primary default arrangement;
- To offer a wider range of asset classes with different levels of risk and return, and different investment approaches including ethical investment; and
- To support members who want to take a more active part in how their savings are invested.

Additional Voluntary Contributions

The Defined Benefit (DB) Section of the Scheme also has an Additional Voluntary Contribution (AVC) arrangement where DB members were able to make additional contributions that are invested on a money purchase basis either with Legal & General (L&G) or Scottish Widows.

A full review of the AVC arrangement was carried out in June 2020. The review concluded that both the range of funds and the funds themselves available from L&G were appropriate, with the exception of the L&G Managed Property Fund, whose suitability was impaired as a consequence of Covid19. The Scottish Widows With Profits Fund was also found to remain appropriate. There are seven Scottish Widows unit-linked funds which the Trustee are reviewing separately. The Trustee is investigating whether transferring the unit-linked AVCs to the Mercer Master Trust may provide better value for members.

2 Costs and charges

When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance.

The table below sets out whether the charges and transaction costs for each of the Scheme's services are borne by members or the Employer (there are no shared costs).

Service	By members		By the Employer	
	DC section	AVC arrangement	DC section	AVC arrangement
Investment management	✓	✓		
Administration	✓			✓
Communication	✓			✓
Governance			✓	✓
Investment transactions	✓	✓		

Explanation of Charges

The charges quoted in this Statement are the funds' Total Expense Ratios ("TERs"). The TER consists of a fund's Annual Management Charge ("AMC") and Operating Costs and Expenses ("OCE"). OCEs include, for example, the fund's custodian costs. While the AMC is usually fixed, the OCE, and hence the TER, can vary slightly from day to day. The charges are deducted before the funds' unit prices are calculated.

Transaction costs

The funds' transaction costs are in addition to the funds' TERs and can arise when:

- The fund manager buys or sells part of a fund's portfolio of assets; or
- The platform provider or fund manager buys or sells units in an underlying fund.

Transaction costs vary from day to day depending on where each fund is invested and stock market conditions at the time. Transaction costs can include custodian fees on trades, stockbroker commissions and stamp duty (or other withholding taxes).

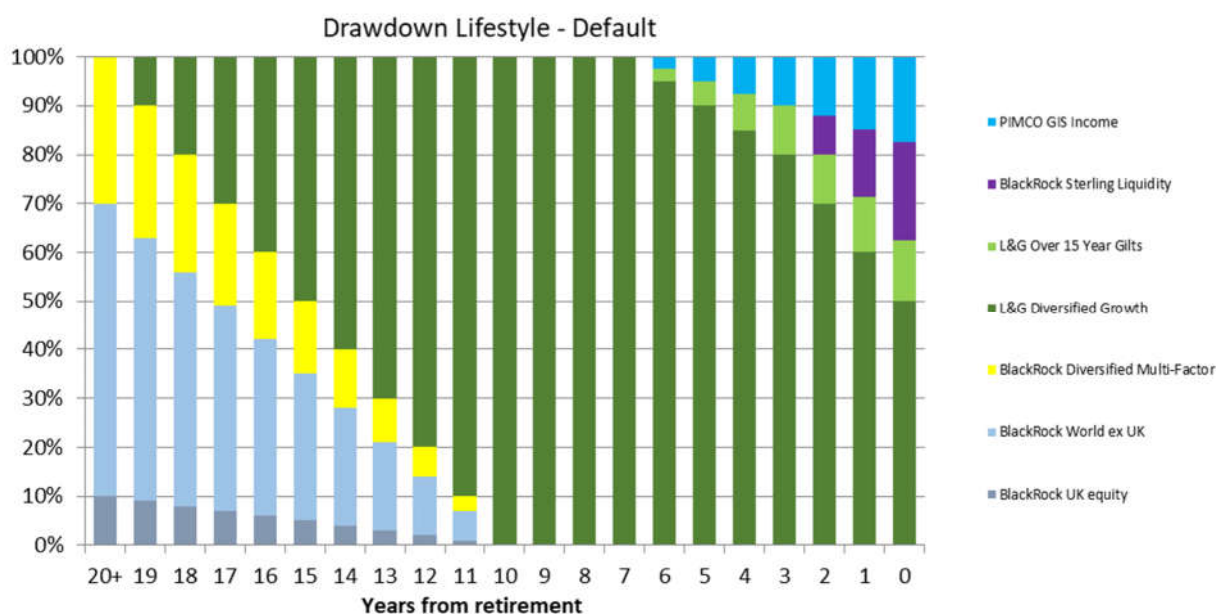
Transaction costs are deducted before the funds' unit prices are calculated. This means that transaction costs are not readily visible, but these costs will be reflected in a fund's investment performance.

Member-borne charges and transaction costs

The charges and transaction costs set out in this Statement have been supplied by the Scheme's investment providers Scottish Widows and Legal and General.

Primary default arrangement - charges and transaction costs

The primary default arrangement was a "lifestyle strategy" which invested contributions in funds according to how far each member was from their selected retirement age. As a result, charges borne by each member could vary from one year to the next.



During the year, the member-borne charges for the primary default arrangement were in a range from 0.243% to 0.520% p.a. of the amount invested or, put another way, in a range from £2.43 to £5.20 per £1,000 invested. The transaction costs borne by members in the primary default arrangement during the year were in a range from 0.003% to 0.029% p.a. of the amount invested or, put another way, ranging from a cost of £0.03 to £0.29 per £1,000 invested.

For the period covered by this Statement, the annualised charges (TERs) and transaction costs were:

Period to retirement	Charges		Transaction costs*	
	% p.a.	£ per £1,000	% p.a.	£ per £1,000
More than 20 years	0.243	2.43	0.029	0.29
Between 20 and 10 years	0.382	3.82	0.016	0.16
Between 10 and 7 years	0.520	5.20	0.003	0.03
Between 7 years and retirement	0.500	5.00	0.012	0.12
At retirement	0.458	4.58	0.024	0.24

Source: Scottish Widows

*The Financial Conduct Authority ("FCA") requires fund managers and providers to calculate transaction costs using the "slippage method", which compares the value of assets immediately before and after a transaction has taken place. This can give rise to negative transaction costs where favourable stock market movements during a transaction offset the rest of the trading costs (such as stockbroker commission) giving a net saving.

The Scheme was a qualifying scheme for auto-enrolment purposes and the member borne charges for the primary default arrangement complied with the 0.75% p.a. charge cap during the year covered by this Statement.

The table in Appendix 2a gives the charges and transaction costs for each fund used by the primary default arrangement.

Other default arrangements - charges and transaction costs

As explained earlier, the Liquidity fund and PIMCO fund were also considered to be “default arrangements” for some members. During the year, the member-borne charges for the Liquidity fund and PIMCO fund were 0.22% p.a. and 0.72% p.a. of the amount invested or, put another way, £2.20 and £7.20 per £1,000 invested respectively. The Scheme was a qualifying scheme for auto-enrolment purposes and the member borne charges for these other default arrangements complied with the 0.75% p.a. charge cap during the year covered by this Statement.

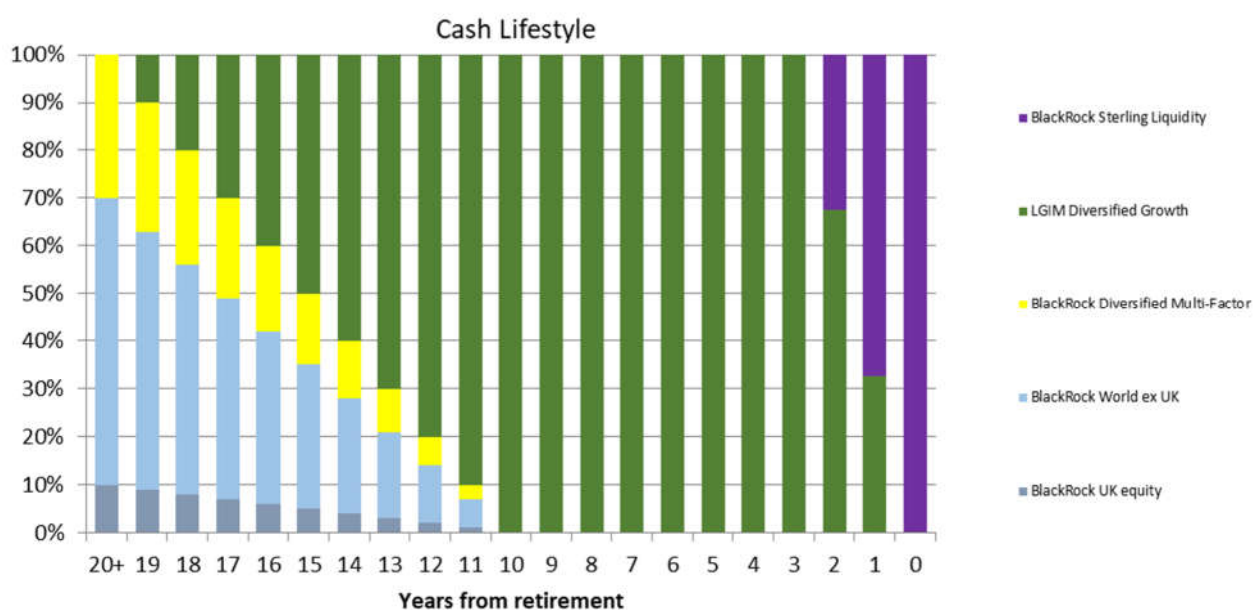
The transaction costs borne by members in the Liquidity fund and the PIMCO fund during the year were 0.014% p.a. and 0.11% p.a. of the amount invested or, put another way, a cost of £0.14 and £1.10 per £1,000 invested respectively.

Charges and transaction costs for the investment options outside the default arrangements

In addition to the primary default arrangement, members also had the option to invest in one other lifestyle option, targeting cash withdrawal, and 17 self-select funds.

Lifestyle option (QinetiQ DC Cash Focussed Lifestyle)

The lifestyle option outside the primary default arrangement also invested contributions in different funds according to how far each member was from their selected retirement age. The charges borne by each member could therefore vary from one year to the next.



During the year, the member-borne charges for the QinetiQ DC Cash Focussed lifestyle option were in a range from 0.220% to 0.520% p.a. of the amount invested or, put another way, in a range from £2.20 to £5.20 per £1,000 invested. The transaction costs borne by members in the QinetiQ DC Cash Focussed lifestyle option during the year were in a range from 0.003% to 0.029% p.a. of the amount invested or, put another way, ranging from a cost of £0.03 to £0.29 per £1,000 invested.

For the period covered by this Statement, the annualised charges (TERs) and transaction costs were:

Period to retirement	Charges		Transaction costs	
	% p.a.	£ per £1,000	% p.a.	£ per £1,000
More than 20 years	0.243	2.43	0.029	0.29

Between 20 and 10 years	0.382	3.82	0.016	0.16
Between 10 and 7 years	0.520	5.20	0.003	0.03
Between 7 years and retirement	0.445	4.45	0.005	0.05
At retirement	0.220	2.20	0.014	0.14

Source: Scottish Widows

The tables in Appendix 2b gives the charges and transaction costs for each fund used by the non-default lifestyle option.

Self-select funds

The Scheme offered members a choice of 17 self-select funds.

During the year the charges for the self-select funds were in a range from 0.205% to 1.280% p.a. of the amount invested or, put another way, in a range from £2.05 to £12.80 per £1,000 invested. The transaction costs borne by members in the self-select funds during the year were in a range from -0.029% to 0.469% p.a. of the amount invested or ranging from a saving of £0.29 to a cost of £4.69 per £1,000 invested.

The table in Appendix 2c gives the charges and transaction costs for the remaining self-select funds outside the default arrangements.

Additional Voluntary Contributions (“AVCs”)

The Scheme offers members in the DB Section a choice of 12 funds for their AVCs with **Legal and General Investment Management (LGIM)**.

During the year the charges for the AVC funds were in a range from 0.100% to 0.880% p.a. of the amount invested or, put another way, in a range from £1.00 to £8.80 per £1,000 invested.

The transaction costs borne by members in the AVC funds during the year were in a range from -0.024% to 0.128% p.a. of the amount invested or, put another way, ranging from a saving of £0.24 to a cost of £1.28 per £1,000 invested.

There are also members with AVCs invested in unit-linked funds with **Scottish Widows**.

During the year the charges for these AVC funds were in a range from 1.00% to 1.25% p.a. of the amount invested or, put another way, in a range from £10.00 to £12.50 per £1,000 invested.

The transaction costs borne by members in these AVC funds during the year were in a range from a saving of 0.07% to a cost of 0.15% p.a. of the amount invested or, put another way, ranging from a saving of £0.70 to a cost of £1.50 per £1,000 invested.

The table in Appendix 2d gives the charges and transaction costs for each AVC fund.

Some members also have AVCs invested in the **Scottish Widows With Profits Fund**.

The charges and transaction costs for this With Profits Fund are not disclosed, but some members' AVCs are subject to the limits on charges set in the Court “Scheme of Demutualisation”. This was a document approved by the High Court when Scottish Widows converted from a mutual life office to a proprietary life company in March 2000. It sets out how the rights of policyholders up to the point of demutualisation are protected so that there is no cross-subsidy to subsequent policyholders (for example, on operating expenses).

The implicit costs and charges for the Scottish Widows With Profits Fund cover the cost of guarantees and reserving as well as investment management and administration services.

Impact of costs and charges - illustration of charges and transaction costs

Over time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustee asked the administrator of the DC Section of the Scheme, Scottish Widows, to illustrate the impact over time of the charges and transaction costs borne by members in the different investment options of the Scheme.

These illustrations (as set out in the tables in Appendix 3) show projected fund values **in today's money** before and after costs and charges for a typical member at stages from joining the Scheme up to retirement. These illustrations have been given for the primary default arrangement where members were automatically enrolled as well as four other self-select funds which comprise:

- The Liquidity fund (a default arrangement for some members as explained earlier)
- The PIMCO GIS fund (a default arrangement for some members as explained earlier)
- The self-select fund with the lowest charges; and
- The self-select fund with the highest charges.

As an example, a member in the primary default arrangement who is aged 35 now with total contributions of £725 per month, is projected to have a pot at retirement (in 30 years' time) of £330,000 in today's money before costs and charges. This reduces to £304,000 after costs and charges.

As the DC Section of the Scheme has now moved to the Mercer Master Trust, these illustrations will no longer be as relevant.

Notes on the illustrations in Appendix 3

- The illustrations have been prepared in accordance with the DWP's statutory guidance.
- The "before charges" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after all costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers since 1 July 2019, when Scottish Widows acquired Zurich workplace savings, rather than those over the past five years; and
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

Missing information and limitations

The Trustee is satisfied that it obtained full information on charges and transaction costs with the exception of the Scottish Widows With Profits fund. The Trustee will continue to request charges and transaction cost information from Scottish Widows for the With Profits fund every year.

3 Value for Members

Each year, with the help of their advisers, the Trustee assesses whether the default arrangements and other investment options represent good Value for Members.

Value is not simply about low cost. The Trustee considers that Value for Members is the combination of costs and the quality of the services received by the Scheme membership as a whole, when compared to other options available in the market.

As part of their due diligence ahead of the transfer to the Mercer Master Trust the Trustee compared the value for members between the Scheme and the Mercer Master Trust. They found that the Mercer Master Trust gave at least equal to, if not better, Value than the Scheme.

Approach

The Trustee adopted the following approach to assessing Value for Members for the last year:

- Services – they considered the investment, administration and communication service for DC members as they bear these costs, and investment services only for AVC members as they bear those costs (all other costs are born by the Employer – there are no shared costs);
- Outcomes – they weighted each service according to its likely impact on outcomes for members at retirement;
- Comparison – the cost and quality of each service were compared against similar schemes and available external comparisons;
- Rating - each service was rated on the following basis:

Definition	Rating
The Trustee considers the Scheme offers excellent value for members, providing services within a top 20% quality/cost range compared with typical options for similar schemes.	Excellent
The Trustee considers the Scheme offers good value for members, providing services at better quality/cost compared with typical options for similar schemes.	Good
The Trustee considers the Scheme offers average value for members, providing similar services at similar quality/cost compared with typical options for similar schemes.	Average
The Trustee considers the Scheme offers below average value for members, providing similar services at higher cost or more limited services for similar cost compared with typical options for similar schemes.	Below average
The Trustee considers the Scheme offers poor value for members, providing services within the bottom 20% quality/cost range compared with typical options for similar schemes.	Poor

Results

Overall, the Trustee believes that members of the DC Section and AVC arrangements received “Good” value for the charges and cost that they incurred during the year covered by this Statement. The rationale for the rating of each service is outlined in the table below:

Service and weighting	Rating	Rationale
Investment 60% (100% for AVC arrangement)	GOOD	Charges were slightly higher than to those of comparable schemes, however expensive elements of the default are believed to add value to members via active management and greater diversification. Transaction costs were broadly similar to or less than those of comparable schemes. The Trustee is satisfied that the investment options were suitable for the Scheme's membership and have focussed time this year on ensuring the investment options in the Mercer Master Trust provide at least as good, if not better value for members. Investment performance were broadly in line with the funds' objectives. The Additional Voluntary Contribution (AVC) arrangement was last reviewed in June 2020. L&G DB AVC funds were broadly in line with their objectives over the year to 30 June 2021, with the exception of the Multi Asset fund. The Trustee is undertaking a separate review to establish whether a transfer to the Mercer Master Trust would offer these members better value.
Administration 20%	AVERAGE	The Scheme's administration was carried out within the agreed service standards with 76% of time critical processes completed in 2 working days and 84% of manual administration processes carried out within 3-5days. of work carried out within n working days. Core financial transaction were processed promptly and accurately. The Scheme's administrator is accredited to ISO 27001 standard. Scottish Widows have signed up to the Pensions Regulator pledge to combat pension scams and continue to invest in their Customer Vulnerability Strategy and training for colleagues.
Communication 20%	GOOD	Scottish Widows, as platform provider to the DC section of the Scheme, offers a website (including modellers) to members and provides a range of appropriate guides and other relevant information for those building their pension or those nearing retirement. Relevant communications are sent to members at appropriate points in their pension's lifecycle. 'Online' engagement has been monitored over the year using a number of metrics. There was around a 20% increase in members visiting the website this year (perhaps unsurprising given increased communications around the move to Master Trust).

During the next 12 months the Trustee will carry out a further review of the AVCs and determine whether a transfer to the Mercer Master Trust might provide better value for these members too.

4 Administration

The Trustee appointed Scottish Widows to administer the DC section of the Scheme and Buck to administer the AVCs for members of the DB section on their behalf.

The Scheme's administrators have confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately. This includes:

- The receipt and investment of contributions (including inward transfers of funds);
- Switches between investment options; and
- Payments of benefits (including retirements and outward transfers of funds).

Scottish Widows

The Trustee had a Service Level Agreement ("SLA") in place with Scottish Widows covering accuracy and timeliness of core financial transactions, split by:

- Time Critical Processes (non-claims) e.g. investment of contributions, investment switches and redirections, and transfers in;
- Time Critical Processes (claims) e.g. retirement, transfer, short service and death claims;
- Manual Administration (non-time critical processes) e.g. member enquires, fund value and illustrations, 'wake up' letters, tax free cash calculations, retirement claim payments; and
- Call handling.

A brief summary of the SLAs are as follows:

- 1 Time Critical Processes (non-claims) – act on instruction by the end of the following Business Day – target is 100% within agreed timescales for buying and selling units;
- 2 Time Critical Processes (claims) - act on instruction within 2 Business Days – target is 100% within agreed timescales for buying and selling units;
- 3 Manual Administration (non-time critical processes) – completion of task within 3 to 5 (10 for more complex cases) Business Days (dependent on task) or within the statutory deadlines permitted – target is 95% within SLA;
- 4 Manual Financial Transactions Accuracy – target is 100% within SLA; and
- 5 Call handling – target is 97% of calls answered.

The Trustee understands that Scottish Widows monitored its performance against these service levels by:

- Having two individuals check all Time Critical Processes (a percentage of those tasks are then quality checked by a third individual in the control team); and
- Having a Workflow system in place, which both allocates a task to an SLA and time stamps the process as started. The system then determines whether a task has met its SLA following completion by the relevant team (which is also time stamped).

Scottish Widows have a 'PEGA' workflow system for the Scheme, with built in SLA prioritisations and a 'Get Next Work' function that ensures staff get the highest priority case first.

The Trustee monitored core financial transactions and administration service levels during the year by:

- Checking that contributions deducted from members' earnings had been paid promptly to the Scheme by the employer – all contributions were received within the required legal timescales.
- Receiving quarterly reports from Scottish Widows on the processing of financial transactions against agreed service levels:
 - Time Critical Processing (non-claims and claims) reporting shows that 76% of processes were within the SLA.
 - Manual Administration (non-time critical processes) reporting shows that 84% were processed within the SLA.
 - Manual Financial Transactions Accuracy reporting shows that 100% processes achieved the SLA requirement.
 - Call handling shows that 90% of calls were answered.
- Considering the reasons for and resolution of any breaches of service standards, as provided by Scottish Widows.
- Arranging reviews and receiving reports on data accuracy. The most recent report (dated 30 September 2020) concluded that common data (i.e. data that uniquely identifies a member) was present for 99.8% of the membership.
- Considering member feedback including any complaints – a complaint log is kept for scrutiny. There were 7 recorded complaints during the year, of which 6 were upheld.

With the transfer to the Mercer Master Trust, Scottish Widows no longer administer the DC Section.

Scottish Widows bulk transfer of assets

The assets of the DC Section of the Scheme were transferred to the Mercer Master Trust on 11 May 2021.

The Trustee reviewed the way in which the transfer was to be conducted. As part of the offer from the Mercer Master Trust, Mercer paid for all costs associated with the transfer leaving members no worse off. Furthermore they pre-funded the transfer to ensure there was no 'out-of-market' risk for members.

Buck

The Trustee has the following SLAs in place with Buck covering accuracy and timeliness of core financial transactions:

- Post and email logging onto workflow system on the date of receipt
- Responding to general enquiries from members within 10 working days
- Enquiries relating to AVCs within 10 working days
- Death in service processing within 5 working days
- Death in deferment of retirement processing within 5 working days
- Issue of early leaver statements within 10 working days
- Issue of retirement quotations within 5 working days
- Set up and payment of retirement benefits within 5 working days
- Transfer in/out processing within 10 working days
- Issue of Actuarial Valuation extract within 50 working days

- Issue of draft Annual Accounts within 60 working days

Buck aim to ensure that 95% of all these processes are completed within these service levels.

The Trustee monitored core financial transactions and administration service levels during the year by:

- Receiving quarterly reports from Buck on the processing of financial transactions against agreed service levels. Reporting shows that 75% of processes relating to AVCs were within the SLA time.
- Considering the reasons for and resolution of any breaches of service standards, as provided by Buck. Whilst SLAs have not been met over the year. Buck now provide “deeper dive” reports for the Trustee to analyse on a quarterly basis; and
- Considering member feedback including any complaints. There was 1 recorded complaint during the year which related to AVCs with Scottish Widows.

Overall

The Trustee has not tested the competitiveness of the service standards. The Trustee acknowledge the wider administration of the Scheme did not achieve the agreed service standards (with the exception of the accuracy SLA). The Trustee note that with the move to the Mercer Master Trust, a dedicated administration resource is available and financial penalties should act as an incentive for the Mercer Master Trust to deliver within agreed service standards.

5 Trustee knowledge

The Scheme's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee Director must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy adopted by the Trustee relating to the administration of the Scheme generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual to properly exercise his or her functions as a trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment of the assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below:

- There is **an induction process** for newly appointed Trustee Directors, who are asked to complete the Pensions Regulator's "Trustee Toolkit" within 6 months of becoming a Trustee. Each Trustee Director has completed this Pensions Regulator's Trustee Toolkit (the Trustee Toolkit is a free online learning programme from The Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law).
- At the moment, whenever the Trustee Directors have a decision to make, any training that may be required to ensure that the decision is properly informed is provided on a just-in-time basis.
- **Advisors provide training** when revisiting or introducing new topics and time is allocated at each of the Trustee's main board meetings for training. The Trustee, with the help of their advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's investment advisers raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee meetings if they are material.
- Training is provided to ensure that the Trustee maintains a **working knowledge** of the Scheme's Trust Deed and Rules, the Scheme's Statement of Investment Principles as well as the investment concepts and principles relevant to the Scheme, contract documents in relation to the administration of the Scheme and the law and legislation relating to pension schemes and trusts. All the Trustee Directors have access to copies of and are familiar with the current governing documentation for the Scheme, including the Trust Deed & Rules (together with any amendments) and Statement of Investment Principles ("SIP"). The Trustee refers to the Trust Deed and Rules as part of deciding to make any changes to the Scheme (including in connection with the bulk transfer to the Mercer Master Trust), and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments.
- Trustee Directors are encouraged to **undertake further study and qualifications** which support their work as Trustee, for example through attendance at Pensions Management Institute events.
- The Trustee also receives **quarterly "hot topics"** from their adviser covering technical and legislative/regulatory changes affecting defined contribution (and additional voluntary contribution) schemes in general.

In addition, the Chair of Trustee is an independent trustee who is employed by BESTrustees Limited (and an Accredited Member of the Association of Professional Pension Trustees). As a result, the Chair is expected to maintain a higher level of knowledge and understanding than non-professional trustees as well as receiving the training provided to the Trustee Board as a whole and being conversant with the Scheme's own documents and policies.

A training log is maintained and reviewed quarterly in line with best practice to ensure it is up to date. During the period covered by this Statement, the Trustee Board as a whole received training on the following topics relevant to the DC Section and AVC Arrangement of the Scheme (this is in addition to any individual training or study which a Trustee Director has undertaken):

Date	Topic	Aim/benefit
1 July 2020	Responsible Investment	To refresh the Trustee's knowledge on Responsible Investment and Environment, Social and Governance aspect of pensions schemes.
2 July 2020	COVID-19 / Governance	Assessing the governance legacy of COVID-19
8 July 2020	Investment Strategy	Session on optimising resources, specifically on <i>Credit Markets and Opportunities</i> , and learning more on DC investing in the UK
23 July 2020	DC Transfers	A session exploring DC to DC transfers with guests from Isio.
6 October 2020	Legislation	A session on the Pension Schemes Bill and CIGA 2020
5 November 2020	Business Continuity	<i>Planning in an unpredictable time: Helping Pensions Trustees Stay Ahead.</i> A session to help Trustees in their role.
16 April 2021	Cyber security	A webinar to discuss cyber security and pensions scams.
20 April 2021	Legislation	A presentation from Burges Salmon on the Pension Schemes Act 2021
24 June 2021	Climate Risk / Investment strategy	Sessions from Hymans Robertson to discuss Climate Risk with the Trustees, introduce TCFD, and to discuss different investment strategies more generally.

The Trustee carried out an in-depth Trustee Board effectiveness evaluation with Muse in April 2021, which identified a number of actions to be taken forward. The Trustee is currently considering those actions and taking steps as it considers appropriate.

The Trustee has appointed suitably qualified and experienced legal advisers, investment consultants and benefit consultants to provide advice on the operation of the Scheme in accordance with its Trust Deed and Rules, legislation and regulatory guidance. Advisers and service providers are reviewed periodically with light touch reviews as required if there are any performance or other Trustee concerns about the adviser/provider. No new advisors were appointed during the year. Over the year covered by this Statement the Trustee

assessed their investment consultants, Hymans Robertson, against their objectives in line with the Competition and Markets Authority (CMA) Order.

The Trustee is satisfied that, as described above, they have during the last year:

- Taken effective steps to maintain and develop their knowledge and understanding; and
- Ensured they received suitable advice.

The Trustee is satisfied that their combined knowledge and understanding as a result of the experience and actions described above, together with access to suitable advice, gave them requisite expertise to properly exercise their duties during the year.

Huw Evans

24 January 2022

_____ Date: _____

Signed on behalf of the Trustee by

HUW EVANS on behalf of BESTrustees Limited

Chair of the Trustee of the QinetiQ Pension Scheme

For the record

This Annual Statement regarding governance has been prepared in accordance with:

Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879); and

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (SI 2018/233).

Appendix 1

Statement of Investment Principles

Appendix 2

Table of funds and charges

2a Default arrangements

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year used in the primary default arrangement were:

Fund	ISIN *	Underlying Fund***	ISIN *	Charges **		Transaction costs	
				% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested
SW Aquila World ex UK Equity Index CS1	GB00B4KTZY32	BlackRock Aquila Connect World (ex UK) Equity S2	GB00B00C3Y02	0.205	2.05	-0.009	-0.09
SW Aquila UK Equity Index CSW	GB00BYMV6T90	BlackRock Aquila Connect UK Equity S2	GB00B00C3Z19	0.21	2.10	-0.029	-0.29
SW Blackrock ACS World Multifactor Eq Trkr CS1	GB00BD3FW626	Blackrock ACS World Multifactor Equity Tracker	GB00BF1KF532	0.33	3.30	0.125	1.25
SW Legal & General Diversified CS1	GB00BYQDZT49	LGIM Diversified	GB00B6V6GS85	0.52	5.20	0.003	0.03
SW L&G Over 15 Year Gilts Index CS1	GB00B7439060	LGIM Over 15 Year Gilts Index	n/a	0.22	2.20	0.001	0.01
SW PIMCO GIS Income CS1^	GB00BD3FXL41	PIMCO GIS Income Fund	IE00B7KFL990	0.72	7.20	0.11	1.10
SW BlackRock Sterling Liquidity CSW^	GB00BYMV6Q69	BlackRock Institutional Sterling Liquidity	IE00B3X1KB16	0.22	2.20	0.014	0.14

Source: Scottish Widows

^In addition, these funds are also defined as 'other default arrangements' for certain members as described in section 1 of the Statement.

2b Lifestyle option outside the default arrangement

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year used in the Cash Focused lifestyle option were:

Fund	ISIN *	Underlying Fund***	ISIN *	Charges **		Transaction costs	
				% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested
SW Aquila World ex UK Equity Index CS1	GB00B4KTZY32	BlackRock Aquila Connect World (ex UK) Equity S2	GB00B00C3Y02	0.205	2.05	-0.009	-0.09
SW Aquila UK Equity Index CSW	GB00BYMV6T90	BlackRock Aquila Connect UK Equity S2	GB00B00C3Z19	0.21	2.10	-0.029	-0.29
SW Legal & General Diversified CS1	GB00BYQDZT49	LGIM Diversified	GB00B6V6GS85	0.52	5.20	0.003	0.03
SW BlackRock Sterling Liquidity CSW	GB00BYMV6Q69	BlackRock Institutional Sterling Liquidity	IE00B3X1KB16	0.22	2.20	0.014	0.14
SW Blackrock ACS World Multifactor Eq Trkr CS1	GB00BD3FW626	Blackrock ACS World Multifactor Equity Tracker	GB00BF1KF532	0.33	3.30	0.125	1.25

Source: Scottish Widows

2c Self-select funds outside the default arrangement

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year for the self-select funds (excluding those included in tables 2a and 2b) were:

Fund	ISIN *	Underlying Fund***	ISIN *	Charges **		Transaction costs	
				% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested
SW Aquila European Equity Index CS1	GB00B5053M21	BlackRock Aquila Connect European Equity	GB00B00C3N96	0.225	2.25	-0.012	-0.12
SW Aquila Corporate Bond All Stocks Index CS1*	GB00B425BY12	BlackRock Aquila Connect Corporate Bond All Stocks S2	GB00B00C3733	0.215	2.15	0.000	0.00
SW Aquila IL Over 5 Year Gilt Index CSW	GB00BYMV6S83	BlackRock Aquila Connect Over 5 year Index Linked Gilt	GB00B00C3J50	0.22	2.20	-0.015	-0.15
SW Aquila US Equity Index CS1	GB00B4THC147	BlackRock Aquila Connect US Equity	GB00B00C3X94	0.205	2.05	0.005	0.05
SW HSBC Islamic (was Amanah) CS1	GB00B5ST8540	HSBC Islamic Global Equity	LU1092475968	0.55	5.50	0.032	0.32
SW L&G 30/70 Gbl Equity Ind Currency Hdg CS1	GB00B86QWH89	LGIM Global Equity FW (30:70) Index	n/a	0.253	2.53	0.041	0.41
SW L&G Ethical Gbl Equity Ind CS1	GB00B4JVK340	LGIM Ethical Global Equity Index	n/a	0.37	3.70	0.000	0.00
SW Property CSW^	GB00BJ477088	Zurich Property	GB00BD00K72	0.738	7.38	0.000	0.00
SW Schroder Global Emerging Markets CS1	GB00B5M17C63	Schroder Global Emerging Markets Fund	GB0007906463	1.28	12.80	0.187	1.87
SW Threadneedle UK Smaller Companies 1CSW	GB00BYTZZB99	Threadneedle UK Smaller Companies	GB0001444479	0.65	6.5	0.469	4.69

Source: Scottish Widows

2d Additional Voluntary Contributions for members in the defined benefit section

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year for the AVC funds (excluding the Scottish Widows With Profit fund) were:

Fund	ISIN *	Charges **		Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested
LGIM Multi-Asset (formerly Consensus) Index Fund	n/a	0.256	2.56	0.018	0.18
LGIM Global Equity Fixed Weights 50:50 Index Fund	n/a	0.194	1.94	0.006	0.06
LGIM UK Equity Index Fund	n/a	0.152	1.52	-0.001	-0.01
LGIM UK Smaller Companies Index	n/a	0.679	6.79	0.128	1.28
LGIM Ethical UK Equity Index Fund	n/a	0.210	2.10	0.033	0.33
LGIM World (ex UK) Equity Index Fund	n/a	0.223	2.23	-0.014	-0.14
LGIM Global Emerging Markets Equity Index	n/a	0.463	4.63	0.023	0.23
LGIM Over 15yr Gilts Index Fund	n/a	0.100	1.00	0.036	0.36
LGIM AAA-AA-A Bonds All Stocks Index Fund	n/a	0.150	1.50	-0.024	-0.24
LGIM Over 5yr Index-Linked Gilts Index Fund	n/a	0.100	1.00	0.024	0.24
LGIM Managed Property Index Fund^	n/a	0.880	8.80	0.047	0.47
LGIM Cash Fund	n/a	0.125	1.25	0.006	0.06

Source: LGIM

* ISIN = the International Securities Identification Number unique to each fund. The ISIN does not exist for funds with "n/a"

LGIM's policy is not to apply for ISINs for its funds provided under a policy of insurance.

** Charges = the funds' Total Expense Ratio ("TER"), which includes the funds' Annual Management Charge ("AMC") and Operating Costs and Expenses.

^ These funds invest directly in property. As a result, in addition to the fund's Total Expense Ratio, members also bear the cost of items such as property management and maintenance

Fund	ISIN *	Charges **		Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested
Scottish Widows Cash Pension Fund	GB0033375782	1.00	10.00	0.01	0.10
Scottish Widows Indexed Stock Pension Fund	GB0009385021	1.00	10.00	0.09	0.90
Scottish Widows Mixed Pension Fund	GB0009393751	1.05	10.50	-0.07	-0.70
Scottish Widows Building Society Pension Fund	GB0009347781	1.00	10.00	0.07	0.70
Scottish Widows Newton Managed Pension Fund	GB0009363093	1.20	12.00	0.15	1.50
Scottish Widows Property Pension Fund	GB0009357046	1.25	12.50	0	0
Scottish Widows Global Equity Pension Fund	GB0009387142	1.00	10.00	0.14	1.40

Source: Scottish Widows

* ISIN = the International Securities Identification Number unique to each fund. The ISIN does not exist for funds with "n/a"

** Charges = the funds' Total Expense Ratio ("TER"), which includes the funds' Annual Management Charge ("AMC") and Operating Costs and Expenses.

The charges and transaction costs for With Profits Funds are deducted from the overall fund before bonus rates are set for all policyholders. As a result, the charges and costs are effectively averaged across all policyholders and it is not possible to determine the exact charges and costs borne by the members of our Scheme. The charges are typically around 1% p.a. for unitised with-profits policies, related to asset management charges and other expenses related to the provision of guarantees and bonuses. A capital fee of 0.3% of asset share per annum is occurred in addition for conventional with-profits policies. The transaction costs for the Scottish Widows With Profits Fund are not disclosed, but some members' AVCs are subject to the limits on charges set in the Court "Scheme of Demutualisation".

Appendix 3

Tables illustrating the impact of charges and costs

The following tables show the potential impact of the costs and charges borne by members on **projected values at retirement in today's money** for typical members joining at a range of ages. They do not need to be reduced further for the effect of future inflation. The illustrations assume continuation of membership of the DC Section of the Scheme. However as this has now moved to the Mercer Master Trust, these illustrations will no longer be as relevant, given changes to investment strategy.

Two scenarios are presented:

- **Scenario 1:** represents an active member with total contributions of £725 per month being paid into the Scheme. This represents the average gross total contribution (i.e. employee and employer contributions including tax relief) currently paid for members of the DC section of the Scheme. A member's total contribution may be more or less than this. These contributions are assumed to increase each year in line with inflation as a proxy for future annual salary growth. Salaries may be expected to increase above inflation, but the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- **Scenario 2:** represents a member who has left the Scheme with no future contributions being paid.

Both scenarios assume:

- The individual is invested either in the primary default arrangement (a lifestyle strategy) - see tables 3a and 3b - or one of four self-select options (one of which is the Liquidity fund which is also classed as a default arrangement for some members) - see tables 3c and 3d.
- The starting DC pot size is £72,000 – please note this represents the current median (i.e. the middle number in a data set which is ordered from lowest to highest) pot size for a member of the Scheme. A member's pot may be higher or lower than this;
- Retirement is at age 65; and
- The rate of inflation and future annual salary growth is assumed to be 2.5% each year.

The transaction costs and charges assumed for each fund are the current charges as shown in Appendix 2. The same methodology and assumptions as used in the Statutory Money Purchase Illustrations, included with members' annual benefit statements, have otherwise been used. In particular, the average projected growth rates of the Default Lifestyle and the four self-select funds illustrated are set out in the tables at the end of this Appendix.

All illustrations have been rounded to the nearest £100.

3a For the primary default arrangement – Scenario 1 (which represents an active member) – Projected pension pot in today's money

Years	Age Now 60		Age Now 55		Age Now 45		Age Now 35	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	79,700	79,300	79,800	79,400	81,900	81,700	82,000	81,800
3	94,900	93,700	95,300	94,000	101,000	100,000	102,000	102,000
5	109,000	107,000	110,000	108,000	120,000	118,000	124,000	123,000
10			145,000	140,000	161,000	156,000	182,000	178,000
15					195,000	186,000	238,000	230,000
20					226,000	212,000	277,000	264,000
25							306,000	286,000
30							330,000	304,000

Source: Scottish Widows

Please note that these illustrated values are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice, and so are not guaranteed. They may not be a good indication of how a member's own savings might grow as there are many variables including future changes in the Scheme's investment options and regulatory changes. They are intended only to illustrate the impact of charges and costs of different investment choices

3b For the primary default arrangement – Scenario 2 (which represents a member who has left the Scheme) – Projected pension pot in today's money

Years	Age Now 60		Age Now 55		Age Now 45		Age Now 35	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	71,200	70,800	71,300	70,900	73,300	73,100	73,400	73,200
3	69,600	68,500	69,900	68,800	75,300	74,600	76,300	75,700
5	67,800	66,100	68,500	66,700	76,500	75,200	79,400	78,300
10			64,600	61,300	75,600	72,600	87,600	85,200
15					72,000	67,300	93,200	89,100
20					67,900	61,900	92,100	86,000
25							87,600	79,700
30							82,600	73,300

Source: Scottish Widows

Please note that these illustrated values are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice, and so are not guaranteed. They may not be a good indication of how a member's own savings might grow as there are many variables including future changes in the Scheme's investment options and regulatory changes. They are intended only to illustrate the impact of charges and costs of different investment choices

3c For the two additional default arrangements – Scenario 1 (which represents an active member) – Projected pension pot in today's money

Years	SW BlackRock Sterling Liquidity CSW		SW PIMCO GIS Income CS1	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	79,100	78,900	79,500	78,900
3	92,900	92,300	94,300	92,300
5	106,000	105,000	108,000	105,000
10	137,000	135,000	143,000	134,000
15	165,000	161,000	175,000	161,000
20	191,000	185,000	205,000	185,000
25	214,000	207,000	233,000	206,000
30	235,000	226,000	259,000	226,000

Source: Scottish Widows

Please note that these illustrated values are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice, and so are not guaranteed. They may not be a good indication of how a member's own savings might grow as there are many variables including future changes in the Scheme's investment options and regulatory changes. They are intended only to illustrate the impact of charges and costs of different investment choices

3d For the two additional default arrangements – Scenario 2 (which represents a member who has left the Scheme) – Projected pension pot in today's money

Years	SW BlackRock Sterling Liquidity CSW		SW PIMCO GIS Income CS1	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	70,600	70,400	71,000	70,400
3	67,900	67,400	69,100	67,400
5	65,300	64,500	67,200	64,500
10	59,200	57,800	62,800	57,800
15	53,700	51,800	58,600	51,700
20	48,700	46,500	54,700	46,400
25	44,200	41,600	51,100	41,500
30	40,100	37,300	47,800	37,200

Source: Scottish Widows

Please note that these illustrated values are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice, and so are not guaranteed. They may not be a good indication of how a member's own savings might grow as there are many variables including future changes in the Scheme's investment options and regulatory changes. They are intended only to illustrate the impact of charges and costs of different investment choices

3e For a selection of the self-select funds – Scenario 1 (which represents an active member) – Projected pension pot in today's money

Years	SW Aquila World ex UK Equity Index CS1		SW Schroder Global Emerging Markets CS1	
	Lowest charge		Highest charge	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	82,000	81,900	82,200	81,000
3	102,000	102,000	103,000	99,400
5	124,000	123,000	125,000	117,000
10	181,000	179,000	184,000	165,000
15	245,000	240,000	250,000	214,000
20	315,000	306,000	323,000	265,000
25	392,000	379,000	404,000	317,000
30	477,000	458,000	495,000	371,000

Source: Scottish Widows

Please note that these illustrated values are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice, and so are not guaranteed. They may not be a good indication of how a member's own savings might grow as there are many variables including future changes in the Scheme's investment options and regulatory changes. They are intended only to illustrate the impact of charges and costs of different investment choices

3f For a selection of the self-select funds – Scenario 2 (which represents a member who has left the Scheme) – Projected pension pot in today's money

Years	SW Aquila World ex UK Equity Index CS1		SW Schroder Global Emerging Markets CS1	
	Lowest charge		Highest charge	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	73,400	73,200	73,500	72,400
3	76,200	75,800	76,700	73,400
5	79,300	78,400	80,000	74,300
10	87,300	85,500	88,900	76,800
15	96,200	93,200	98,800	79,300
20	105,000	101,000	109,000	81,900
25	116,000	110,000	122,000	84,600
30	128,000	120,000	135,000	87,300

Source: Scottish Widows

Please note that these illustrated values are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice, and so are not guaranteed. They may not be a good indication of how your own savings might grow as there are many variables including future changes in the Scheme's investment options and regulatory changes. They are intended only to illustrate the impact of charges and costs of different investment choices

***These illustrations demonstrate the erosive power inflation has on a member's pension savings. The investment return assumed for these funds is less than inflation and therefore inflation reduces the purchasing power of a member's investment over time.**

The average projected growth rates in excess of inflation for the primary default arrangement for each of the years prior to retirement are set out in the table below. The average growth rate has been used as the investment funds which make up the primary default arrangement (a lifestyle strategy) will vary from one year to the next depending on how far each member is from retirement.

Years to Retirement	Scenario 1	Scenario 2
	(an active member)	(a member who has left)
	Projected Growth Rate (Average)	Projected Growth Rate (Average)
	Per annum	Per annum
1	1.4% below inflation	1.4% below inflation
3	1.3% below inflation	1.3% below inflation
5	1.2% below inflation	1.2% below inflation
10	1.1% below inflation	1.1% below inflation
15	1.0% below inflation	0.8% below inflation
20	0.6% below inflation	0.3% below inflation
25	0.3% below inflation	0.1% above inflation
30	0.0% above inflation	0.4% above inflation

Source: Scottish Widows

The projected growth rates in excess of inflation for each of the self-select funds used in the illustrations are set out in the table below:

Fund	Projected Growth Rate
	Per annum
SW PIMCO GIS Income CS1	1.4% below inflation
SW BlackRock Sterling Liquidity CSW	2.0% below inflation
SW Aquila World ex UK Equity Index CS1	1.9% above inflation
SW Schroder Global Emerging Markets CS1	2.1% above inflation

Source: Scottish Widows