Aspire Defence Services Limited Retirement Savings Plan

Statement of Investment Principles

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1.1 INTRODUCTION

This Statement of Investment Principles (the "Statement") has been prepared by the Trustee of the Aspire Defence Services Limited Retirement Savings Plan (the "Plan") in accordance with the following legislation:

- Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004; and
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and
- Subsequent legislation.

The Statement outlines the principles governing the investment policy of the Plan and the activities undertaken by the Trustee to ensure the effective implementation of these principles. In preparing the Statement, the Trustee has obtained and considered written advice from a suitably qualified individual and consulted with the Sponsoring Employer. The advice and consultation process considered the suitability of the Trustee's investment policy for the Plan.

The strategic management of the assets is fundamentally the responsibility of the Trustee acting on expert advice and is driven by their investment objectives as set out below.

1.2 TRUSTEE

The Trustee of the Plan takes investment decisions through the use of an investment sub-committee comprising of trustee and employer representatives having received input from Jagger & Associates which is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. The Trustee is responsible for the following tasks:

- the ongoing 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 investment manager;
- the assessment of the risks assumed by the Plan at a global level as well as on a manager basis;
- the compliance of the investment arrangements with those principles set out within the Statement;
- communicating details of the Plan to help members make informed retirement savings decisions and monitor their progress.

The full Trustee body reviews and then decides upon the recommendations of the investment sub-committee before any change in investment policy or investment manager.

1.3 INVESTMENT ADVISER

In preparing this statement the Trustee consulted with the principal employer of the Plan and has taken advice from Jagger & Associates.

The Trustee reviews the investment performance, investment strategy and manager arrangements from time to time, taking advice as required.

The Trustee's investment advisers are regulated by the IFoA under the DPB regime.

1.4 INVESTMENTS

1.4.1 Socially Responsible Investment and Corporate Governance

The Trustee believes that good stewardship, environmental, social and corporate governance ("ESG") issues can have an impact on investment returns. The Trustee has resolved that ESG should form part of any investment manager's investment selection and ongoing involvement regarding the portfolio.

The Trustee has delegated responsibility for the selection, retention and realisation of investment securities to each of its appointed investment managers and included within this each manager is required to advise the Trustee of its ESG policy and update the Trustee on an annual basis.

As part of the initial ESG policy introduction the Trustee has considered the ESG policies of the various managers and where passive funds are used emphasis is concentrated on the Governance aspect of ESG.

It is not the policy of the Trustee to impose restrictions on the managers. However, having considered the various manager ESG policies the Trustee is confident that ESG factors are taken into account when assessing sustainability in the exercise of their delegated duties.

The Trustee excludes other non-financial matters in the selection, retention and realisation of investments.

The Plan ensures that the votes attached to its holdings are exercised whenever practical. The Plan's voting policy is exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Investment managers are expected to report on their adherence to these Codes from time to time.

1.4.2 Voting policy/Stewardship

The Trustee has concluded that the decision on how to exercise voting rights should be left with their investment managers who will exercise this right in accordance with their respective published corporate governance policies. These policies are provided to the Trustee from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Plan's advantage.

Where the Trustee is specifically invited to vote on a matter relating to a policy or contract held with the Plan's investment managers, the Trustee will exercise its right in accordance with what it believes to be in the best interests of the majority of the Plan's membership.

1.5 MONITORING OF INVESTMENT ADVISER AND MANAGERS

1.5.1 Investment adviser

The Trustee measures the performance of their adviser on an on-going basis in a qualitative way.

1.5.2 Investment managers

The Trustee has arranged for regular performance measurement of the investments to be provided by their advisers and from the investment managers. The Trustee reviews the performance of the individual funds against the relevant benchmarks.

2.1 INVESTMENT OBJECTIVES

The Trustee recognises that members of the Plan have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee therefore makes available a range of investment options and a lifestyle strategy sufficient to enable members to tailor their investment strategy to their own needs. The Trustee also recognises that members may not wish or believe themselves able to make investment decisions. As such, the Trustee makes available a default investment arrangement

However, in order to moderate the administrative burden to the Plan and also to maintain simplicity, the number of investment options available to members will be limited.

2.2 INVESTMENT MANAGERS

The Trustee has delegated to their investment managers the discretion over the day to day management of their assets, including short-term asset allocation and stock selection, subject to the requirements of the Statement.

The Trustee, after considering appropriate investment advice, has appointed TEAMS JLT to manage the assets of the Plan.

The details of the pooled funds offered are detailed in Appendix A.

The Trustee ensures that its investment managers are properly regulated by the FCA in the conduct of investment business.

2.3 INVESTMENTS

2.3.1 Types of investments to be held

After due consideration, pooled funds have been chosen by the Trustee as the appropriate vehicle for the investment of the Plan members' assets, and for the following reasons:

- To achieve greater diversification and access to markets compared to investing directly into these markets;
- Transparency to members of the value of their savings;
- Simplification of administration.

The pooled funds offered and their benchmarks are set out in Appendix A.

2.3.2 Risk measurement and risk management processes

The Trustee believes that appropriate benchmarks for performance measurement have been identified for each of the Plan's funds. These have been determined in conjunction with the funds' investment managers and with advice from the Plan's investment adviser. From time to time, the Trustee will review the actual assets held by the chosen funds.

The retention of the investment manager and the inclusion of any particular fund in the range offered to members is reviewed following:

- Any significant event at the investment house;
- Any takeover activity involving the investment house;

- The fund breaching its mandate;
- Underachievement of the investment objective or exceeding the risk profile.

The Trustee has considered risk from a number of perspectives, both in relation to their default investment arrangement and wider fund choice. These are:

a) The risk that future investment returns over members' working lives do not exceed inflation and therefore undermine members' efforts to achieve an adequate retirement income.
b) The risk that unfavourable market movements in the years just prior to retirement lead to a substantial reduction in the anticipated level of members' retirement savings;
c) The risk that there are insufficient investment options available to members to allow them to meet their specific risk/return requirements;
d) The risk that the investment vehicles in which monies are invested under-perform in comparison to the investment managers' stated fund aims and objectives;
e) The risk that the investment profile of the default option is unsuitable for the requirements of some members.

The Trustee believes that the investment arrangements outlined are appropriate for meeting the risks outlined above. In particular, for members who do not wish to take up an active role in making investment decisions, the Trustee offers a default investment arrangement with lifestyling to help them manage the inflation and market movement risks outlined above.

2.3.3 Investment strategy

Defined contribution schemes place the investment risk with the individual scheme member. The Trustee has put in place a lifestyle default investment option for each employer, taking into account the workforce, as they believe that it offers the most appropriate balance between risk and reward throughout an individual's membership of the Plan.

The lifestyle investment option provides members that are some way from retirement, with appropriate opportunities for asset growth in exchange for a greater volatility in asset values and for those nearer to retirement, protection against volatility in annuity purchasing power and tax-free cash benefits in exchange for potentially lower asset growth.

Within a lifestyle investment option, a transition between asset types has been determined to strike an appropriate asset balance depending on the age of the member.

In addition to the lifestyle option, members are free to make their own choice of funds (known as a self-select option) from a range selected by the Trustee so as to provide a different spread of investment opportunities more specific to the members' individual needs.

Default Investment Option

A proportion of members will actively choose the default option because they feel it is most appropriate for them. However, the vast majority of DC scheme members do not make an active investment decision and are invested in the default option.

Objectives of the default option

The Trustee's objectives in relation to the default option, and the ways in which the Trustee seeks to achieve these, are detailed below:

- To generate returns in excess of inflation during the "growth" phase of the strategy.

- To provide a strategy that reduces investment risk for members as they approach retirement.
  As a member's pot grows, investment risk will have a greater impact on members' retirement outcomes. Therefore, the Trustee believes that a default option that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over a prescribed year switching period from growth assets to assets designed to be lower risk relative to the targeted form of benefits.

- To offer to members a mix of assets at retirement that are broadly appropriate for an individual to have a balance between purchasing a fixed annuity and taking cash.

  At the selected retirement date, 75% of the member's assets will be invested in a bond fund and 25% in a cash fund. Whilst returns from these asset classes are expected to be modest over the long term; they are employed in order to broadly match short term changes in the (explicit and implicit) costs of cash and annuity retirement benefits.

Policies in relation to the default option

- The default option manages investment and other risks throughout a member's lifetime via a strategic asset allocation consisting of equities, bonds and cash. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.

- In designing the default options, the Trustee has explicitly considered the trade-off between risk and expected returns.

- If members wish to, they can opt to choose their own investment strategy on joining, but also at any other future date.

The Trustee believes that the funds offer members good value for money and; at the same time, significantly reduce the risks associated with poor investment manager performance relative to benchmarks.

- The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used within the Plan and the default option operate daily dealing cycles.

- Investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those requirements

- Assets are invested mainly on regulated markets.

- The investment manager also has discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities.

Based on the Trustee's understanding of the Plan's membership, an investment strategy that targets the purchase of a fixed annuity and a tax-free cash lump sum (up to 25% of a members' pot) at retirement is expected to be broadly appropriate to meet a typical member's requirements for income in retirement. This is because:

Members seeking an adequate income in retirement will likely need to achieve real investment returns for most of their period as pension savers. The use of a fund with significant weightings in equities during the accumulation phase addresses that requirement.

The Trustee believes that most members save into a pension plan to achieve a stable income in retirement. The targeting of annuity purchase at retirement during the consolidation phase of the lifestyle strategy is aligned with that objective.

The default arrangement is aimed largely at members who do not feel capable of taking investment decisions. Again, the Trustee believes that annuity purchase at retirement is likely to be the preferred course for many such members, as opposed to say income drawdown which requires more intensive investment governance during retirement.

Almost all members withdraw tax-free cash at retirement. The use of the cash fund as part of the lifestyle strategy addresses that requirement.

This does not mean that members have to take their benefits in this format at retirement - it merely determines the investment strategy that will be in place pre-retirement. Members who intend to take their retirement savings through other formats have the option of choosing their own investment strategy.

Assets in the default option are invested in the best interests of members and beneficiaries, taking into account the profile of members. Taking into account the demographics of the Plan's membership and the Trustee's views of how the membership might behave at retirement, the Trustee believes that the current default options are appropriate and will continue to review these regularly, and more strategically at least triennially, or after significant changes to the Plan's demographic, if sooner.

The Trustee reviews investment performance and risk on a quarterly basis, and takes professional advice as appropriate.

In addition, the Trustee encourages input from the membership via management committees which have member representation.

2.3.4 Expected returns

The Trustee considers the range of funds offered to be appropriate for the Plan having regard to the profile of its membership and the Plan's overall investment objectives. The Trustee sought the advice of its investment adviser in their selection of suitable funds and will review the range of funds on a regular basis with its advisers. In particular, the following points should be noted regarding the expected returns of the available funds.

- Equities are expected to produce returns in excess of both salary and price inflation over the long term. Equity based funds are therefore deemed to be more appropriate vehicles to protect and enhance the real value of the assets of the younger members of the Plan, over the long term, which is a fundamental objective of the Trustee's investment policy.

- Over the longer term, bond investment is expected to provide lower returns than equity investment but with a lower level of volatility. However, investment in these asset types are primarily held to provide protection against the short-term fluctuations of equity markets during the period up to the conversion of the members' accumulated savings in to annuities.

- This aspect, which is an objective of the Trustee's investment policy, occurs because annuity prices are linked to bond yields rather than equity prices.

- Cash is also expected to provide lower returns but with a correspondingly low risk profile. However, it is more suitable when converting savings to a tax-free cash lump sum (up to 25% of a members' pot). It is therefore deemed to be more suitable for members approaching retirement.

2.3.5 Realisation of investments

The Trustee's policy is to ensure that the assets invested are sufficiently realisable to enable the Trustee to meet their obligations to provide benefits as they fall due. The Trustee is satisfied that the arrangements in place conform to this objective.

3.1 COMPLIANCE

The Plan's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Plan's current Statement is also supplied to the Sponsoring Employer, the Plan's investment manager, the Plan's Auditors and the Scheme Actuary.

The Trustee will monitor compliance with this Statement annually. In particular it will obtain written confirmation from the investment managers that they have complied with this Statement as supplied to them and the Trustee undertakes to advise the investment managers promptly and in writing of any material change to this Statement.

This Statement of Investment Principles supersedes all others and was approved by the Trustee:

Signature:

Name: **Lynne Stewart**
Chair of the Aspire Defence Services Limited Retirement Savings Plan

Date: **10 June 2020**

Appendix A – Investment Manager Information

The Plan invests in a combination of pooled funds using the TEAMS JLT Platform. Members are currently permitted to invest in the following pooled funds through the lifestyle option or the self-select option.

Within the Lifestyle option, until 8 years before target retirement age savings are invested in the TEAMS Global Equity (60:40) Index Fund and the TEAMS Active Balanced Bond Fund. Savings are then switched quarterly, according to a pre-determined matrix, to the Pre-Retirement Fund and the Cash Fund, according to members' proximity to retirement. The strategy is summarised in the following table.

Years to retirement	Global Equity Index Fund	Active Balanced Bond Fund	Long Gilts Fund	Cash Fund
More than 8	80%	20%	0%	
7	70%	20%	10%	
6	60%	20%	20%	
5	50%	20%	30%	
4	40%	20%	35%	5%
3	30%	20%	40%	10%
2	20%	20%	45%	15%
1	10%	20%	50%	20%
0	0%	20%	55%	25%

The table below shows the details of the investments held with TEAMS JLT which comprise the lifestyle strategy. These funds are also available as self-select options for members. The contract for all the funds is an insurance policy issued by Phoenix Wealth.

Fund	Benchmark	Objective	Annual Management Fees
Global Equity (60:40) 1% out performance Fund	60% FTSE All-Share Index 40% represented by the sub-divisions of a Developed World Index excluding the UK	To capture total returns of the UK and overseas equities markets and outperform the benchmark by 1% p.a. over a 3-year rolling period	0.40% p.a.
Active Balanced Bond Fund	Over 15 year gilts index (replaces the iBoxx Overall from 11/6/20)	To perform in line with the benchmark, gross of fees, on a rolling 3-year basis	0.25% p.a.
Long Gilts Fund	Over 15 year gilts index	To outperform the benchmark by 0.5% p.a. over a rolling 3-year period	0.25% p.a.
Cash Fund	7 Day LIBID	To perform in line with the benchmark, gross of fees, on a rolling 3-year basis	0.30% p.a.

All of the above funds are available as self-select with the addition of the fund below

Fund	Benchmark	Objective	Annual Management Fees
UK Equity 1% outperformance Fund	FTSE All-Share Index	To outperform the benchmark by 1% p.a. over a rolling 3-year period	0.35% p.a.