

Raytheon Systems Limited Pension Scheme

Statement of Investment Principles – March 2024

1. Introduction

- 1.1 The Trustees of the Raytheon Systems Limited Pension Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. It also meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005.
- 1.2 The Statement is intended to affirm the investment principles that govern the Trustees’ decisions about the Scheme’s investments.
- 1.3 In preparing this Statement the Trustees have consulted Raytheon Systems Limited (the “Company”) to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme’s investment arrangements.
- 1.4 In preparing this Statement and considering the appropriate investments for the Scheme the Trustees have obtained and considered the advice of Mercer Limited (“Mercer”), who are regulated by the Financial Conduct Authority (“FCA”), and whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).
- 1.5 The objectives set out in this Statement, and the risks and other factors referenced, are those that the Trustees determine to be financially material considerations in relation to the Scheme. The Trustees do not take into account any non-financial factors (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.
- 1.6 In December 2023, the Scheme completed a bulk annuity transaction covering the Scheme’s full liabilities. Following the transaction, the Scheme’s primary investment holding is a buy-in policy with Just Retirement Limited (“Just”). The Trustees retain responsibility for the residual assets.

2. Trustee Decision Making Process and Policy for Choosing Investments

- 2.1 The Trustees are responsible for all decisions relating to investments unless otherwise delegated.
- 2.2 A Joint Working Group (“JWG”) has been constituted to support the Trustees in relation to integrated risk management, including investment matters, and to make recommendations to the Trustees. The JWG includes representatives from the Trustees and Company and is able to meet from time-to-time as required.
- 2.3 Day-to-day management of the Scheme’s residual assets is delegated to the appointed investment managers.
- 2.4 The Trustees’ policy for choosing investments is as follows:

- Identify appropriate investment objectives.
- Agree the level of risk consistent with meeting the objectives set.
- Construct a portfolio of insurance policies and investments that is expected to meet the objectives and desired risk level.

2.5 When choosing investments the Trustees consider the need for adequate diversification, as appropriate to the nature of the Scheme and the relevant investment type.

3. Investment Objectives

3.1 The Trustees' primary objective is to invest the Scheme's assets in the best interest of the members. In addition, the Trustees will pay regard to, and seek to reflect within its investment arrangements, the Company's objectives concerning in particular the potential size and incidence of contribution payments.

3.2 In seeking to achieve this primary objective, the Trustees also consider a secondary objective, which is to invest the Scheme's assets in such a manner that members' benefit entitlements are paid as and when they fall due.

3.3 To this end, the Trustees purchased a buy-in policy with Just in December 2023, securing the Scheme's full liabilities. Under the buy-in contract, Just are obligated to make payments to the Trustees in order to meet the Scheme's liabilities to the beneficiaries insured under the policy. The residual assets are invested in closed-ended private market investment funds and cash held in the Trustee Bank Account.

4. Risk Management and Measurement

4.1 The Trustees are aware of, and pay close attention to, a range of risks inherent in investing the assets of the Scheme. The Trustees have sought to mitigate key risks by the purchase of a buy-in policy. The Trustees believe the following risks may be financially material over the future lifetime of the Scheme (i.e. before converting the buy-in policy to a buy-out policy and winding up the Scheme):

- Failure of the buy-in provider (counterparty risk): the risk that Just may default on their obligations under the buy-in contract. To mitigate this risk, before entering into the buy-in contract the Trustees took appropriate advice and paid close attention to the financial strength, security and operational soundness of the chosen insurer at the point of purchase.
- Liquidity risk: The Trustees do not expect to be able to obtain cash from the buy-in policy other than to meet promised benefits as agreed with Just. The Trustees have considered this and have set aside cash, held in the Trustee Bank Account, in order to meet expenses and other potential liquidity needs. Furthermore, the residual private markets investments are expected to provide a source of income as the funds are expected to make distributions to the Trustee Bank Account.
- Manager risk: Arrangements are in place to monitor both the investment strategy as a whole and the investment managers of the residual assets. Further details on the policies in place in relation to investment managers are detailed in Section 9. The Trustees have also selected a number of different specialist managers so as to reduce manager concentration risk.

- Investment-related operational risk: The Trustees work with their advisers and investment managers to understand the extent of such risks but delegate the day to day control of such risks to the managers. The safe custody of the Scheme's assets is delegated to professional custodians.
- Currency risk: The residual investments in private markets funds are denominated in Euros and US Dollars, therefore the Scheme is exposed to fluctuations in these currencies.
- Environmental, Social and Corporate Governance ("ESG") risk: there is a risk that ESG concerns, including climate change, have a financially material impact on the return on the Scheme's assets and on the insurer's business. The management of ESG related risks is delegated to investment managers and the insurer, with oversight from the Trustees. See Section 8 for the Trustees' policies in this regard.

5. Investment Strategy

- 5.1 In December 2023, the Scheme purchased a buy-in policy with Just and the majority of the Scheme's assets were transferred to Just in order to meet the insurance premium.
- 5.2 The Scheme's liabilities are met by the buy-in contract with Just. Just is responsible for the realisation of assets within the contract in order to make the payments due.
- 5.3 The residual assets are invested in private equity, private debt, and real estate. In addition, there is a cash balance retained in the Trustee Bank Account for liquidity purposes.

6. Selection, Retention and Realisation of Investments

- 6.1 In respect of the residual assets, the investment managers have discretion in the selection, retention and realisation of investments and in considerations relating to the liquidity of those investments. The investment strategy has been set taking into account the Scheme's requirements for cashflow and liquidity. Should any disinvestment or investment of cash be required, this will be made from the Trustee Bank Account in the first instance.

7. Additional Assets

- 7.1 The Trustees are responsible for the investment of legacy Additional Voluntary Contributions ("AVCs") paid by members. Assets in respect of members' additional voluntary contributions are held with Reassure (formerly Legal & General Assurance Society), Royal London (previously Scottish Life), Phoenix and Utmost Life (formerly Equitable Life Assurance Society Limited).
- 7.2 The Trustees also maintain a bank account for administration purposes.

8. Environmental, Social and Governance (ESG) Considerations

- 8.1 The Trustees believe that ESG issues may have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

- 8.2 The Trustees accordingly consider these issues in the context of anticipated time horizon over which the assets will be held.
- 8.3 The Trustees do not directly manage the Scheme's investments or the buy-in policy, and the investment managers and the insurer have full discretion over their mandates, within the agreed guidelines / contracts.
- 8.4 The Trustees do not expect to make any further investment manager or insurer appointments. Should this be required for any reason, ESG considerations would form part of the selection process.
- 8.5 The investment managers and the insurer are expected to evaluate ESG factors (including climate change considerations) where practical and, in relation to the assets in which they invest, to exercise any voting rights and stewardship obligations (including engagement activities) attached to the investments in accordance with their own corporate governance policies and current best practice (including the UK Corporate Governance Code and UK Stewardship Code).
- 8.6 Whilst members' views are not taken into account in the selection, retention and realisation of investments, the Trustees welcome views from members. Members have a variety of methods by which they can make views known to the Trustees.
- 8.7 The Trustees do not take into account any other non-financial factors (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

9. Investment Manager Arrangements

This Section focus on policies in respect of the investment of the residual assets.

Overview

- 9.1 The Trustees delegate the day-to-day management of the residual assets to the investment managers.
- 9.2 The Scheme's investment managers have been appointed based on their capabilities and suitability as regards meeting the Scheme's objectives. Their appointments are therefore also based on their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.
- 9.3 The Trustees received advice from its investment adviser in relation to forward-looking assessments of a manager's ability to outperform over a full market cycle, for mandates where outperformance is the objective. This view included the investment adviser's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment portfolios that the Scheme invests in.
- 9.4 If the investment objective for a particular investment manager's fund changes, the Trustees will review the fund appointment, with the investment adviser's assistance, to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.
- 9.5 The Trustees invest in pooled vehicles and have accepted that there is no ability to specify the risk profile and return targets of the manager in these instances. However, appropriate

mandates have been selected to align with the overall investment strategy as documented in this Statement.

Investment Manager Remuneration

- 9.6 The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. Therefore, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee.
- 9.7 The Trustees reviewed the investment management fees for the managers of the residual assets at inception of investing in the closed ended funds. This included receipt of advice from the Trustees' investment advisers regarding fee suitability and competitiveness.
- 9.8 Investment managers are not remunerated based on portfolio turnover.

Evaluating Investment Managers

- 9.9 The residual assets are invested in closed ended private markets funds that are in "run off". As they have now largely achieved their performance objectives, the Trustees' governance arrangements focus on monitoring cashflow back to the Scheme.
- 9.10 The Trustees consider the investment adviser's investment research and ESG research ratings if required. Through these ratings, the Trustees are able to assess for example how each investment manager embeds ESG into its investment process and how each manager's investment philosophy aligns with the Trustee's policies.

Time horizon and Duration of Appointments

- 9.11 The Scheme's residual assets are invested in closed-ended funds (private equity, private debt and real estate). In relation to these arrangements, the Scheme is invested in a manager's fund for the lifetime of the fund. At the time of appointment, the investment managers provided an indication of the expected investment duration of their funds and have the discretion to extend the lifetime of the fund in line with their appointment documentation.

Portfolio turnover costs

- 9.12 The Trustees do not currently monitor portfolio turnover costs and have not set portfolio turnover targets; rather the Trustees assess investment performance net of the impact of the costs of such activities. The Trustees are however able to ask investment managers to include portfolio turnover and turnover costs in their reports.

10. Review of this Statement

- 10.1 The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.