

# QinetiQ Pension Scheme - Implementation Statement for the year ending 30 June 2024

**Welcome to the Trustee's Statement of how they implemented the policies and practices in the Scheme's Statement of Investment Principles (SIP) during the year ending 30 June 2024.**

## Introduction

The Trustee has prepared this Implementation Statement in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and subsequent amending legislation, and those of the Pensions Regulator's General Code of Practice. It sets out how the Trustee have complied with the QinetiQ Pension Scheme's Stewardship Policy and Statement of Investment Principles during the period 1 July 2023 to 30 June 2024.

Overall, the Trustee is satisfied that:

- The Scheme's investments have been managed in accordance with the Scheme's Stewardship Policy during the period.
- The Scheme's investments have been managed in accordance with the remainder of the Scheme's Statement of Investment Principles; and
- The provisions of the Statement of Investment Principles remain suitable for the Scheme's members.

## Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the principles and practices the Trustee follows when governing the Scheme's investments. It describes the rationale for selecting the investment strategy and explains the risks and expected returns of the funds used, as well as the Trustee's approach to responsible investing (including climate change).

The Trustee reviewed and updated the Statement of Investment Principles during the 12-month period to 30 June 2024. The main changes made to the SIP that was signed on 31 October 2023 included:

- Making explicit reference to the Scheme's ability to utilise temporary credit facilities for liquidity purposes under the 'Kinds of investment to be held' section
- Addition of 'Collateral' as an asset risk to illustrate the risk that there is insufficient capital in the liability driven investment (LDI) portfolio to support the desired hedging exposure.

The Scheme's SIP between 30 June 2023 and 30 October 2023 was fundamentally the same as the SIP signed on 31 October 2023 from an investment policy, objective and risk management perspective. The SIP was next reviewed in July 2024 and signed in August 2024, post Scheme year-end, which next year's implementation statement will assess.

The Trustee has prepared this Implementation Statement on the basis of the Statement of Investment Principles in force throughout the period, with reporting within this document in line with the Statement of Investment Principles applicable at the relevant time.

The Scheme's Statement of Investment Principles can be consulted online at <https://qinetiqpensionscheme.info/documents/statement-of-investment-principles-2024>.

## Investments governance

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustee has overall responsibility for how the Scheme's investments are governed and managed, in accordance with the Scheme's Trust Deed and Rules, as well as Trust Law, Pensions Law and Pension Regulations. The Trustee has established an Investment Working Group, which focuses on investment issues and makes recommendations to the full Trustee Board.

The Trustee set objectives for the Scheme's investment adviser designed to align with the Trustee's own objectives and investment strategy as set out in the Statement of Investment Principles. The suitability of these objectives was last reviewed by the Trustee in December 2023 and is scheduled for review in December 2024.

The Trustee carried out an evidence-based review of the investment adviser's performance against the objectives on 12 December 2023 which involved rating the adviser against the different objectives. The Trustee is satisfied that the objectives have been achieved for the year.

On 1 October 2023, the Scheme moved to a professional sole corporate trusteeship. Given the move to professional sole corporate trustee, most of the training is carried out in-house and professional standards and knowledge are maintained by the independent trustee firm. This is supported by additional training from the Scheme's investment advisers as necessary

The Trustee's Investment Beliefs were considered and used to help inform decision making with respect to the Scheme's investments over the reporting period.

The investment risks relating to the Scheme are described in the Statement of Investment Principles on pages 3 to 5 and the expected return on investments is set out on page 3. The Trustee views on the expected levels of investment risk and return inform decisions on the strategic asset allocation (i.e., what type of assets and areas of the world the Scheme invests in over the longer term), and the style of management adopted by the Scheme.

The Scheme has conflicts of interest policies in place covering its service providers, including the asset managers and investment adviser. The Trustee formally asks the investment managers to confirm any conflicts of interest when the Trustee meets with them. The investment managers have not disclosed any potential or actual conflict over the period.

### Stewardship policy

The Trustee's Stewardship (voting and engagement) Policy sets out how the Trustee will behave as an active owner of the Scheme's assets which includes the Trustee's approach to:

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustee monitors and engages with their investment managers and any other stakeholders.

The Scheme's Stewardship Policy can be found within the Scheme's Statement of Investment Principles on page 7. The Scheme's Stewardship Policy is reviewed on a periodic basis in line with the Scheme's SIP review which was completed in October 2023 during the period. Therefore, this report covers the Stewardship Policy within the SIP that was signed on 31 October 2023.

The Trustee has delegated engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustee believes it is important that their investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with management on issues which affect a company's financial performance.

The Trustee's engagement activity with the investment managers is undertaken via their investment adviser. The investment adviser meets with the Scheme's managers and considers managers' exercise of their stewardship. The investment adviser communicates any findings with the Trustee and suggests actions that the Trustee may wish to undertake. Should a significant decision be required, the Trustee will meet with its managers as required.

The Trustee also monitors their compliance with its Stewardship Policy on a regular basis and is satisfied that they have complied with the Scheme's Stewardship Policy over the last year.

The following sections set out how the Trustee has complied with the Scheme's Stewardship Policy over the year to 30 June 2024, meeting with the Scheme's investment managers, and monitoring their key engagement activities during the period, details of which can be found below and in Table 1 . Due to the nature of the Trustee's investments, the Trustee does not hold any mandates which carry voting rights. Therefore, voting data for the period reviewed has not been provided. The Trustee does not believe any information is missing.

### Engagement activity

The Trustee indirectly engages with their investment managers through their investment adviser on an ongoing basis, where stewardship issues are discussed in further detail. In particular, the investment adviser would engage with investment managers to discuss any business updates, cashflow forecasts, performance of underlying investments, and how the managers have engaged with key stakeholders on underlying investments. The Trustee also met with Insight to discuss the evolution of the LDI portfolio in May 2024. In line with the Scheme's Stewardship Policy, subjects discussed with the investment managers throughout the period included:

- Firm, team and market update, including any notable turnover within teams
- Distribution forecasts and extension requests, where relevant
- Ongoing performance of funds and underlying positions
- Recent transactions and themes
- TCFD report disclosures, net zero reporting, data coverage improvement and progress on data availability and reporting (among other ESG and climate risk factors)

For the Trustee's meeting with Insight, the additional subjects were discussed:

- LDI portfolio evolution, discussing the feasibility of investing in CPI-linked instruments
- Indicative pricing expected for achieving the desired equity exposure

The following outcomes were achieved:

- The Trustee was satisfied with the updates provided by the managers on their business and team. There was significant turnover within Insight's Secured Finance and M&G's leadership team. The Trustee engaged with Insight on the turnover and concluded that they were satisfied with the responses received. Both funds have been placed 'On Watch' by their investment advisors, pending further review.
- The Trustee voted in favour of fund extension requests received by Partners Group and Adams Street Partners over the period to allow sufficient time to extract the maximum value from the remaining assets
- The Trustee noted an improvement in TCFD and climate risk reporting over the period, although remains conscious that several of the illiquid funds are in distribution mode, so the ability to improve on these metrics is limited.
- The Trustee, via their investment advisor, continues to engage with the managers on their methods to improve coverage of climate related forward-looking targets for all asset classes.

### Summary of manager engagement activity

Table 1 summarises the key engagement activity for the 12-month period ending 30 June 2024 unless stated otherwise. Where fund specific data is not available, data on a firmwide level has been used.

**Table 1: Summary of management activity**

Manager: Fund	Number of engagements	Topic engaged on
Adams Street Private Equity	The manager had in excess of 900 interactions with General Partners included in the QinetiQ portfolio for the 12-month period to 30 June 2024.	Topics include portfolio updates, ESG, industry trends, recent exits, outlook for the underlying companies and various macro events.
Ares Capital Europe V	The manager was not able to provide the number of engagements the Portfolio Management Team had with portfolio companies.  However, the manager noted that their pilot questionnaire in partnership with a third-party firm, Novata, achieved a high engagement rate of over 85%.	The manager engages with portfolio companies to deliver cash flow and liquidity analysis, equity cushion and leverage development since initial investment and projection of forward covenant compliance.
Partners Group: Multi Asset Credit 2017	The manager does not currently track every engagement within the portfolio but has provided us with 4 examples over the period.	Refinancing and realisation of first and second lien debt, restructuring progress, call with management, investment extensions.
HPS: Specialty Loan Fund 2016 & Speciality Loan Fund V	Engagements per fund:  SLF 16: 15+  SLF V: 60+	ESG data collection, carbon footprint measurement and monitoring and the social compliance program.
M&G: Real Estate Debt Finance VI	The manager has informed us of 4 engagement activities over the period.	Green building certification and improving the monitoring of environmental data of properties, environmental performance, ESG data disclosure
DRC: UK Whole Loan Fund II	The manager confirmed that they took part in 20-30 engagements over the period.	Environment, Strategy, Financial
Insight segregated portfolio (LDI, synthetic equity and synthetic credit)	Insight has noted that counterparties' sustainability performance is measured through their Sustainability Assessment Questionnaire.	Topics discussed with counterparties include but are not limited to approaches to decarbonisation, diversity and inclusion, and ESG linked remuneration.

Manager: Fund	Number of engagements	Topic engaged on
	<p>Insight made 33 engagements across 16 counterparties off the back of the questionnaire</p> <p>Wider industry engagements include Insight engaging with Debt Management Office (DMO) and the government.</p> <p>Insight has engaged with the Department of Energy Security and Net Zero, the Department for Work and Pensions (DWP), the UK Transition Plan Taskforce (TPT) and various other industry groups.</p> <p>Across the Liquidity Fund and Liquidity Fund Plus, Insight had 16 engagements and engaged with 12 different entities.</p>	<p>Engagement topics with regulators and government cover sustainability and fiduciary duty, green gilt issuance, the government's approach to net zero, and implementation plans on sectoral net zero policies.</p>
Insight Asset Backed Securities (Liquid ABS fund, High Grade ABS fund, and Global ABS fund)	The manager advised that there was a total of c20 engagements across the secured finance and asset backed securities universe. Of these, c15 were meaningful engagements.	Topics include but are not limited to collateral pool data provision, ESG restrictions within CLO, green lending practices, carbon reporting
Insight Buy and Maintain Credit	The manager confirmed that over the 9-month period between 30 September 2023 and 30 June 2024, Insight engaged with 141 entities, covering 322 engagements.	Topics include but are not limited to financial performance, capital allocation, climate change, strategy and purpose, risk management, shareholder rights

Source: Investment Managers

### Review of policies

The Trustee has committed to reviewing the managers' Responsible Investment policies on a periodic basis. A review was undertaken by the Trustee in September 2023. The review considered managers' broader approach to responsible investment issues, a summary of the managers' adherence to relevant Codes and Initiatives, and key climate related risks and opportunities facing each manager.

The Trustee and their investment advisers remain satisfied that the responsible investment policies of the managers remain suitable for the Scheme.