

GENERAL DYNAMICS UNITED KINGDOM RETIREMENT AND DEATH BENEFIT SCHEME

CHAIR'S ANNUAL STATEMENT REGARDING GOVERNANCE

For the period 1 April 2017 to 31 March 2018

This statement is produced pursuant to **Regulation 17 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015**. It explains how the General Dynamics United Kingdom Retirement and Death Benefit Scheme is meeting the governance standards that apply to occupational pension schemes that provide money purchase benefits.

Default Arrangement

Last year we told you that the Trustees had made an in depth review of the investment strategy due to the new Pension freedoms introduced in April 2015. In particular we carried out a review of members projected accounts at age 65 and concluded that the traditional Lifestyle approach (75% Gilts, 25% cash) at age 65, which was based on the expectation that members would purchase annuities, may not be appropriate for the majority of our members. We can now report that the default arrangement has changed post year end to provide a more flexible Glide path leaving members at Target Retirement Date (TRD) with a balanced portfolio of 25% Equities, 25% Diversified Growth Fund, 25% Gilts and 25% Cash split leaving all options open to members.

The new 10 year Flexible Glide Path investment strategy starts 10 years from TRD and funds are switched monthly as identified in the graph in the SIP annexed to this report along with the other Glide path options.

The latest Statement of Investment Principles (**SIP**) governing decisions about investments for the purposes of the default arrangement is reproduced in Annex A below. The SIP has been updated this year to include the new default Glide path

The Trustees must review both the default investment strategy and the performance of the default arrangement:

- a) at least every three years; and
- b) without delay after any significant change in -
 - i. investment policy; or
 - ii. the demographic profile of relevant members.

The Trustees must, in particular, review the extent to which the return on investments relating to the default arrangement is consistent with the aims and objectives of the trustees in respect of the default arrangement. The Trustees consider that the new default glide path is expected to provide an investment return consistent with member aspirations.

In addition, the Trustees introduced two Liability Driven Investments (LDI) funds during the year to help mitigate the inflation and longevity risks for the DB part of the Scheme.

All funds are invested via the Legal and General investment platform, which has enabled us to provide the DGF fund at no additional cost to the Company.

Financial transactions

The scheme uses Jardine Lloyd Thompson as its third party administrators (JLT). JLT work to a number of Service Level Agreements, which identify the number of working days they have to complete certain activities such as:

- investment of contributions to the scheme;
- transfers of assets relating to members into and out of the scheme;

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- transfers of assets relating to members between different investments within the scheme (i.e. investment switches);
- payments from the scheme to, or in respect of, members.

The investments into the funds are carried out by Legal and General Investment Managers (LGIM) under instruction from JLT, who take their instructions from the Trustees and the members.

The Trustees review administration performance reports from JLT at least quarterly and are pleased to report that administration performance improved during the year. Nevertheless, the Trustees will continue to keep this matter under review.

During the scheme year the Trustees also carried out an in depth Benchmarking activity to see whether or not we were getting a value for money service from our administrators. As the Company pays all of the administration and investment costs of the Scheme it was not so much about cost as about member experience. Subsequent to the Benchmarking activity our administrators have reduced a number of their service level agreements (SLA) timescales and the Trustees asked for a fresh approach to the Scheme which resulted in a new Consultant being appointed. There is however still more work to be carried out on the member experience.

The auditors have been tasked to confirm that there is daily monitoring of bank accounts, a dedicated contribution processing team and four eyes checking of investment and banking the results of these checks can be found on the annual account report.

Charges

The Scheme incurs a number of management charges from LGIM, JLT and Hogan Lovells for the day to day management of the Scheme, these are detailed below:

- For the investments undertaken by LGIM the charges for the period 1st April 2017 to 31st March 2018 were £230,351 (last year £260,159). These are paid for by the Company. This covers the charges for both the DB and DC elements of the scheme.
- The only charges paid for by the member are the Bid Offer spread i.e: the difference between selling and buying of the shares within a fund and these vary in price from fund to fund. The Trustees have compared the bid offer spread costs used by Legal and General Investment Managers (LGIM) and another fund manager Hargreaves Lansdown (HL) and believe the charges made by LGIM are of an industry standard. In addition, because of its size LGIM is able to buy and sell items at a mid-price thus reducing or removing any bid offer spread costs, although currently there is no agreement within the investment community as to how these costs should be measured and reported but the Trustees will keep these under review.
- JLT charges for the same period amount were £250,824 (last year £308,274) and covers Administration, Consultancy, Actuarial and Investment advice, again these are paid for by the Company for both the DB and DC sections of the Scheme.
- If Legal advice is required during the year then our solicitors (Hogan Lovells) will also charge for their services, for the year 1st April 2017 to 31st March 2018 our legal costs were £21,965 (last year £72,412), again paid for by the Company.

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- Information on the trustees' assessment of the extent to which the charges and transaction costs represent good value for members can be found at the link below, however, as the Company pays these charges it is considered very good value for members.

<http://www.thepensionsregulator.gov.uk/guidance/guidance-dc-schemes.aspx>

Trustee Knowledge and Understanding

All of the Trustees are required to complete the Pension Regulators Trustee Tool Kit, in addition the Trustees undergo regular training at main Trustee meetings and the subject matter is normally associated to key activities that are being considered by the Trustees at that time. Trustees are also encouraged to attend external seminars to gain valuable experience on pension's legislation, regulation and current Pension thinking. Records of all Trustee training are retained within the Scheme business plan. During the year I also introduced a requirement for Trustees to gain CPD points for the year 2017 it was a requirement of 10 CPD points, for the year 2018 it is 20 CPD points and these are held on a separate CPD register. The training programme is agreed each year at the governance meeting. A skills matrix is used to assess areas where additional training is required.

Trustees are required to be conversant with:

1. The Trust Deed and Rules
2. Statement of Investment Principles
3. Statement of Funding principles
4. All associated policy documents
5. The law relating to Pensions and Trusts
6. The principles related to the funding of our scheme
7. The principles relating to the investment of assets

Signed:

Andy Dyer

Position: Chair of the Board of the Trustees of the General Dynamics United Kingdom Retirement and Death Benefit Scheme

Date: 15th August 2018

Annex A General Dynamics Retirement and Death Benefit Scheme Statement of Investment Principles.

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