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.

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 An Investment Sub-Committee (“ISC”) has been constituted to support the Trustees in investment matters and to make recommendations to the Trustees. The ISC includes representatives from the Trustees and Company and operates under a Terms of Reference.

2.3 Day-to-day management of the Scheme’s 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 investments that is expected to maximise the return (net of all costs) given the targeted level of risk

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 number of secondary objectives, which are to:

• Invest the Scheme’s assets in such a manner that members’ benefit entitlements are paid as and when they fall due;

• Achieve a return in line with, or in excess of, the investment return assumed in the funding of the Scheme (which itself is linked to the investments held), and;

• Improve the funding position of the Scheme while seeking to reduce volatility in the funding level and contribution requirements, as appropriate. Specifically, to opportunistically reduce the degree of risk in the Scheme’s investment arrangements through the use of funding level based triggers.

4. Risk Management and Measurement

4.1 There are various risks to which any pension scheme is exposed, which the Trustees believe may be financially material to the Scheme. The risks considered by the Trustees over the Scheme’s anticipated lifetime when setting the investment strategy, and the Trustees’ policies for mitigating these risks, are set out below:

• Funding risk: The risk of deterioration in the Scheme’s funding level and hence an increase in the reliance on the Company for contributions. The Trustees recognise that whilst increasing investment risk increases potential returns, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme’s liabilities as well as producing more volatility in the Scheme’s funding position. The Trustees take advice on the matter and (in light of the objectives noted in Section 3) carefully consider the implications of adopting different levels of risk.

• Covenant risk: The Trustees have considered the Company covenant in setting the investment strategy and monitor covenant on a regular basis, including through independent reports from the Trustees’ covenant adviser.

• Concentration risk: The Trustees recognise the risks that may arise from lack of diversification of investments. Subject to managing the strategic allocation between growth and matching assets, the Trustees aim to ensure the asset allocation policy results in a diversified portfolio. Recognising the size of the Scheme’s assets and the need to diversify, investment exposure to most markets is obtained via pooled vehicles.
• Inflation risk: In order to reduce this risk, the Scheme invests in assets with an indirect link to inflation and assets with a direct link to inflation, including liability-driven investments which specifically target an agreed level of inflation hedging, relative to the Scheme’s liability cashflows.

• Manager risk: Arrangements are in place to monitor both the investment strategy as a whole and the Scheme’s investment managers. Further details on the policies in place in relation to investment manager evaluation 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: Addressed through currency hedging to sterling a proportion of the Scheme’s growth assets, and by using primarily UK sterling-denominated bonds and liability-driven investments to match the currency of the liabilities within the matching portfolio.

• Liquidity risk – the Trustees together with the Scheme’s administrators monitor the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

• 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. The management of ESG related risks is delegated to investment managers, with oversight from the Trustees. See Section 8 for the Trustees’ policies in this regard.
5. **Investment Strategy**

5.1 Given their investment objectives, the Trustees have adopted a funding level trigger-based de-risking programme, whereby the strategic asset allocation changes over time as the funding level improves. The strategy is shown in the following table.

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>CURRENT ALLOCATION</th>
<th>DE-RISKING TRIGGER (AT 110.0% FUNDED)</th>
<th>LONG TERM ALLOCATION (AT 115.0% FUNDED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equities</td>
<td>9.0%</td>
<td>4.0%</td>
<td>-</td>
</tr>
<tr>
<td>Diversified growth</td>
<td>10.0%</td>
<td>5.0%</td>
<td>-</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>4.5%</td>
<td>2.0%</td>
<td>-</td>
</tr>
<tr>
<td>Private equity</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Private debt</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Property</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Diversified credit</td>
<td>10.0%</td>
<td>12.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Buy &amp; maintain credit</td>
<td>30.0%</td>
<td>40.0%</td>
<td>46.0%</td>
</tr>
<tr>
<td>Liability Driven Investment</td>
<td>27.5%</td>
<td>27.5%</td>
<td>30.0%</td>
</tr>
<tr>
<td><strong>Inflation and Interest Rate Hedge level</strong></td>
<td><strong>89.5%</strong></td>
<td><strong>95.5%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Notes: Funding level is assessed on the Technical Provisions basis, and the inflation and interest rate hedge levels shown are also based on an assessment against the Scheme’s Technical Provisions. Actual asset allocation may differ from the strategic benchmark as a result of market movements and implementation timing.

6. **Realisation of Investments**

6.1 In general, the investment managers have discretion in the timing of 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, the Trustees take professional advice in relation to the appropriate assets to sell or purchase accordingly.
7. **Additional Assets**

7.1 The Trustees are responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. Assets in respect of members’ additional voluntary contributions are held with Legal & General Assurance Society, Royal London (previously Scottish Life), Phoenix and the 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, and the investment managers have full discretion to buy and sell investments within the various portfolios, within the guidelines of their mandates. ESG considerations are however taken into account in the selection, retention and realisation of investments in the following ways:

- The Trustees consider the ESG research ratings published by our investment advisers, Mercer, when monitoring the Scheme’s investments. These ratings are also considered as part of any new selection of investment funds.

- In meetings with the Scheme’s investment managers, where relevant, ESG issues are discussed and the manager is expected to discuss voting and engagement activities carried out on behalf of the Trustees for mandates where this is appropriate.

8.4 The investment managers are expected to evaluate ESG factors (including climate change considerations) where practical within the terms of their mandate and to exercise 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).

8.5 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.

8.6 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**

*Overview*

9.1 The Trustees delegate the day-to-day management of the assets to the investment managers and have determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.
The Scheme’s investment managers are 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.

The Trustees receive 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 will be based on the investment adviser’s assessment of the manager’s idea generation, portfolio construction, implementation and business management, in relation to the particular investment portfolio(s) that the Scheme invests in. The investment adviser’s manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

For passively managed mandates, or those where outperformance is not the primary goal, the Trustees will seek guidance from the investment adviser in relation to their forward looking assessment of the manager’s ability to achieve the stated mandate objectives.

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.

An investment manager’s appointment will be reviewed following periods of sustained underperformance or failure to meet the mandate objectives, and the Trustees have put in place quarterly monitoring to seek to manage this risk. The Trustees will review the appropriateness of using actively managed funds (on an asset class basis) periodically.

Some appointments are managed on a “bespoke pooled” basis, where the Trustees have specified criteria in the investment manager agreements for the respective manager to be in line with the Trustees’ specific investment requirements. For example, the Trustees have appointed a Liability Driven Investment manager, and the mandate agreements and guidelines are tailored to the specific requirements of the Trustees.

Where the Trustees invest in pooled vehicles it is accepted that there is no ability to specify the risk profile and return targets of the manager in these instances. However, appropriate mandates are selected to align with the overall investment strategy as documented in this Statement.

**Investment Manager Remuneration**

The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management. For liability hedging a fee is calculated based on the percentage of liabilities hedged. In each case, 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.

The Trustees review the Scheme’s investment management fees no less frequently than triennially. This review considers the Scheme’s investment management fees relative to appropriate peer group measures, where available.

Investment managers are not remunerated based on portfolio turnover.
Evaluating Investment Managers

9.12 Investment managers are aware that their continued appointment is based on their success in delivering the objectives of the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

9.13 The Trustees meet with the Scheme’s investment managers, typically at Investment Sub-Committee meetings, or as deemed appropriate. During such meetings the Trustees are able to review the decisions made by the managers, including investment decisions, voting history (in respect of equities) and engagement activity with investee companies, and can question such activities.

9.14 The Trustees consider the investment adviser’s investment research and ESG research ratings within quarterly reporting. 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 as documented in this Statement.

9.15 Where equity funds are held, equity managers registered with the appropriate regulator are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Time horizon and Duration of Appointments

9.16 The Trustees receive independent performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustees review the performance of the investments on an absolute basis and relative to defined benchmarks (over the relevant period) on a net of fees basis. The Trustees’ focus is long-term performance but will put a manager “on watch” if there are short-term performance concerns.

9.17 If a manager is not meeting its performance objectives, over a sustained period of time, and after consideration of all relevant factors, the Trustees may take the decision to terminate the manager.

9.18 The Trustees are long-term investors, reflecting the demographics of the Scheme’s liabilities and the Scheme’s objectives. Accordingly, the Trustees do not seek to change the investment arrangements on a frequent basis.

9.19 The majority of the Scheme’s investment managers are appointed to manage funds which are open-ended with no set end date for the arrangement. The Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager; or
- The manager appointment has been reviewed and the Trustees have decided to terminate the manager.

9.20 The Trustees have also chosen to invest a proportion of the Scheme’s assets in closed-ended funds (for the Scheme’s private equity, private debt and property investments). 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. In order to maintain a strategic allocation to these asset classes, the Trustees may choose to stay with a manager in a new closed fund for that asset class, or appoint a different manager.

**Portfolio turnover costs**

9.21 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 presentations and reports.

10. **Review of this Statement**

10.1 The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Company which they judge to have a bearing on the stated Investment Policy. This review will occur no less frequently than to coincide with the Actuarial Valuation, i.e. at least every three years. Any such review will again be based on written, expert investment advice and will be in consultation with the Company.