

NATS Defined Contribution Pension Scheme

Annual Report for the year ended 31 December 2018

Chairman's Statement

I am pleased to present the Trustees' statement of governance, covering the period 1 January 2018 to 31 December 2018. This statement describes how the Trustees seek to ensure that the NATS Defined Contribution Pension Scheme (the 'Scheme') is well-managed and delivers excellent services to members. The statement examines four key areas of the Trustee's governance, namely:

- The investment strategy relating to the Scheme's default arrangement;
- The processing of core financial transactions;
- Charges and transaction costs within the Scheme; and
- The Trustees' compliance with the statutory knowledge and understanding requirements.

In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

Monitoring the overall quality of the Scheme arrangements is a complex task that the Trustees take seriously, and are supported in this process, as well as the day-to-day business of running the Scheme, by Aegon (the provider of administration, investment and communications services for the Scheme) and an independent advisor, Mercer Limited, covering governance, investment advice and wider DC matters.

It is important to emphasise, that this Statement does not contain advice in respect of actions that members should or should not take and is not intended to be used for that purpose. If members need advice, a list of local independent financial advisers can be obtained on-line at www.unbiased.co.uk.

1. Default Investment arrangement

The Trustees' Statement of Investment Principles (SIP) dated March 2018 is attached. This has been prepared in line with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. In line with the Trustees' requirements this will be made available on a publicly available website and is also available to members on request. This covers the aims and objectives in relation to the default investment arrangement as well as Trustees' policies in relation to matters such as risk and diversification. Additionally, it states why we believe the default investment arrangement to be the most appropriate for the membership of the Scheme.

Following the last full review of the default investment strategy in August 2017, the current default lifestyle strategy, the Income Drawdown Lifestyle, was introduced in March 2018. The current default option is a lifestyle strategy which invests 100% of member's assets in the NATS Higher Growth Fund (a fund diversified across asset classes, but with a bias towards equities) up to 10 years prior to normal or selected retirement age.

At this point a proportion of the assets are gradually switched into the NATS Cautious Fund (a fund diversified across asset classes, but with a bias towards bonds) before introducing an allocation to the NATS Cash Fund in the last 6 years prior to retirement.

At retirement, 25% of the assets are invested in the NATS Cash Fund, 30% in the NATS Higher Growth Fund and 45% in the NATS Cautious Fund. This option is designed for members who are planning to take the maximum tax free cash lump sum and access the remainder of their savings via income drawdown.

The Trustees also believe that a default strategy that maintains a well-diversified investment portfolio in the run up to retirement provides the best compromise against potential risks and ensures individuals are well equipped to navigate their options. Prior to March 2018 the default option was the Annuity Lifestyle strategy which was designed for members who were planning to buy an annuity (pension); this is now a self-select option.

Members intending to take their retirement benefits through other formats have the option of two additional lifestyle strategies or building their own bespoke investment strategy from the self-select fund range. Members are supported by clear communications regarding the aims of the default and the alternative investment options available.

As well as reviewing the lifestyle strategy, during 2017 the Trustees reviewed the blended funds used within the strategies. As a result of this review, the Trustees implemented the following changes prior to March 2018:

- The allocation of the NATS Global Equity Fund within the NATS Higher Growth Fund was increased from 30% to 40%. As a result, the allocation to the NATS Diversified Growth Fund was reduced from 70% to 60%.
- Standard Life Global Absolute Return Strategies and BlackRock Diversified Growth Fund within the NATS Diversified Growth Fund were replaced by an equal balance of the Newton Real Return Fund, the Invesco Global Targeted Returns Fund and the Legal & General Investment Management Diversified Fund. This change also filtered into the NATS Higher Growth Fund and the NATS Cautious Fund.

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The Trustees will continue to monitor the suitability of the default option and it will be reviewed every three years or sooner if necessary, for example if there are significant changes in the Scheme's demographic profile. The next scheduled review is in 2020.

It should be noted that as well as reviewing the default strategy the Trustees formally reviewed the self-select fund range in September 2018. Considering the advice from their Investment Consultant the Trustees agreed that no changes were required to the range of funds at this stage.

The Trustees review the performance of all the funds available to members and risk-based reviews are undertaken on a quarterly basis. The Trustees' Investment Consultant also keeps the Trustees abreast of all the relevant developments in the DC pension arena.

Environmental, Social and Governance Factors in Investments

The Trustees acknowledge the DWP's requirements due to come into force on 1 October 2019 that state the SIP should set out how the Trustees take account of financially material considerations, including Environmental, Social and Governance (ESG) considerations, and explicitly climate change. The SIP must also include the approach to the stewardship of the investments and how the Trustees take account (if at all) of member views on 'non-financial matters'.

This is a subject that the Trustees view as very important, undertaking initial training in December 2018 on ESG factors as they relate to investment performance and establishing ESG beliefs during the first half of 2019. In terms of monitoring ESG issues within the current fund range, the Trustees' Investment Consultant provides ESG fund ratings on a quarterly basis. These ratings represent the extent to which managers integrate ESG factors and active ownership into their core processes.

In addition, the Scheme offers the HSBC Islamic Global Equity Index Fund as an option to members who wish to invest according to particular religious principles. The Scheme also offers the Kames Ethical Fund as an option to members who wish to invest ethically or sustainably. During 2018, the Trustees received training from both HSBC and Kames with the aim of a better understanding of the principles that underpin these funds.

The Trustees have agreed to monitor developments in this area within the confines of the funds made available to the Scheme by the platform provider. The Trustees will consider sustainable investment further at the next formal investment strategy review of the Scheme.

2. Core Financial Transactions

As required by the Administration Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately. Core financial transactions are (broadly):

- Investment of contributions made to the Scheme by members and their employer(s);
- Transfers into and out of the Scheme of assets relating to members;
- Switches of members' investments between different funds within the Scheme; and
- Payments from the Scheme to or in respect of members (e.g. payment of death benefits and on retirement).

The Trustees recognise that delay and error can cause significant losses for members. They can also cause members to lose faith in the Scheme, which may in turn reduce their propensity to save and impair future retirement outcomes. We therefore operate measures and controls aimed at ensuring that all financial transactions (such as benefit payments and switches between funds) are processed promptly and accurately.

The Trustees have appointed a professional pension provider and have delegated the day to day running of the Scheme. However, the Trustees are aware that the responsibility of the running of the Scheme remains with them and they have implemented adequate internal controls, which are reviewed periodically. Core financial transactions have been processed promptly and accurately as a result of the following actions:

- The Trustees use a reputable professional pension administration provider - Aegon.
- The Trustees have appropriate service agreements in place with the administrator and are aware of their key contacts. Such service agreements cover all core administration processes and incorporate performance standards, including timescales for completing tasks. These standards are monitored by the Trustees on a quarterly basis. The Trustees are committed to monitoring service to ensure that members receive service in line with expectations.

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The Trustees have delegated the administration of Scheme member records to Aegon. The Trustees have agreed minimum timescales with Aegon for processing requests, including core financial functions, which are well within any applicable statutory timescales. The following Service Level Agreements (SLAs) for the core financial transactions have been agreed:

SLA	Description	Target Service Level %
1 working day	Contribution schedule in	100%
1 working day	Switch Request	100%
2 working days	BACS Payment in	100%
3 working days	Change payment details	95%
3 working days	Change salary details	95%
3 working days	Change target retirement age	95%
5 working days	Death claim	95%
5 working days	Contribution refund	95%
5 working days	Retirement	90%
5 working days	Transfer out	95%
5 working days	Transfer in	95%
7 working days	Single contribution	100%

Aegon records all member transactions and benefit processing activities in a work management system which assigns the relevant timescale to the task.

From 1 January 2018 to 31 December 2018, an overall service level of 95.57%, for core financial transactions, was achieved by Aegon.

As a wider review of the Fund administrator in general, the Trustees receive details of the administrator's control procedures which govern the accuracy of their processes. The administrator employs an independent auditor to prepare an annual report on their internal controls (AAF01/06/ ISAE 3402). The report to 30 September 2018, which has been shared with the Trustees, confirmed that the administrator's description of their control procedures over their administration and governance activities was fairly presented and that controls were suitably designed, no exceptions were noted.

The processes adopted by the administrator to help meet the SLA's promptly and accurately include:

- Transactions recorded and monitored on the workflow system.
- Member Servicing team completes checklists detailing the required information for financial transactions, which is reviewed by an authorised administrator.
- An authorised administrator of the Member Servicing team reviews the transactions that have been keyed into the Recordkeeping System for completeness and accuracy, before the claims are released for processing.
- Daily, the Member Servicing team confirms that all claims and switches in progress have been fully processed.
- For individual single contributions, the Member Servicing team completes an Authority to Bank form to verify that the relevant reviews have been completed before the contribution is invested.
- Finance reviews bank statements daily to confirm that all contributions have been identified correctly, and records it on a checklist. A second member of Finance reviews and approves the checklist.
- Daily, two administrators verify that direct debits were correctly input into the Direct Debit System.
- Weekly, Finance creates the Unprocessed Cash Report detailing unprocessed cash receipts and investigates why they cannot be processed. A second team member reviews and queries the report.
- Weekly, a senior member of Finance reviews the Disinvestment Report detailing disinvestments that have not yet been paid out or chased. Issues are researched and resolved.
- Daily, Finance reconciles the bank accounts to the General Ledger. A second member of Finance performs a secondary review of the reconciliation.
- Requisitions for payments and cheques require two authorised signatures.

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In addition to the above processes:

- The Trustees identify, evaluate, manage and monitor risk. By incorporating risks identified in relation to core financial transactions into the risk register they are categorised and prioritised.
- The Trustees can confirm that there are close working links between the in-house Human Resource, Payroll and Pension teams and the administrator, and they monitor the timely payment of contributions within the quarterly report.
- Any administration errors will be resolved and managed within timescales agreed with the Trustees.
- The Trustees require the administrators to provide quarterly stewardship reports.
- All documents are scanned and saved electronically. All electronic files are backed up on a daily basis with copies stored off site.
- All financial transactions are subject to annual audit requirements as part the Trustees Annual Report and Accounts.
- The Trustees commission periodic internal audit to check that controls are in place.
- Detailed disaster recovery plans are in place with the administrator, other relevant third parties and within the sponsoring employer.

Based on the above, the Trustees are satisfied that the Scheme's core financial transactions have been processed promptly during the period to which this Statement relates.

3. Costs and Charges borne by members

During 2018 the Trustees reviewed their administration platform provider and this resulted in a two-fold reduction in the fees being paid. Firstly, with effect from 1 July 2018 the per capita fee which had been met by the Company was removed. Secondly, with effect from 1 February 2019 three main funds under the Scheme had a reduction to the annual management charge, which is met by the members. The fees remain compliant within the 0.75% p.a. charge cap on defaulted investment arrangements. The fees in place at the time of writing in May 2019 are detailed in the table on the following page.

Explicit charges known as the Total Expense Ratio (TER) consist principally of the manager's annual charge for managing and operating a fund, but also includes the costs for other services paid for by the fund, such as the legal costs, registration fees and custodian fees. However, they exclude other costs that are also member borne and which can therefore have a negative effect on investment performance such as transaction costs and interest on borrowings.

Transaction costs are the expenses associated with a member trading in and out of a fund as well as the investment manager trading a fund's underlying securities, including commissions and stamp duty.

The Trustees have requested details of the transaction costs applicable to the investment funds from Aegon. The transaction costs provided by the Scheme's investment managers have been reported separately to the Annual Management Charge. The transactions charges that apply during the decumulation phase of the default strategy will be reflective of the composite funds during that period. Details of how this has been allowed for in the impact of charges illustrations can be found in Appendix 2.

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Fund	Underlying Fund	Annual Management Charge (AMC/TER) (% p.a.)	Transaction costs ^a (% p.a.)
NATS High Growth Fund	40% NATS Global Equity 60% NATS Diversified Growth	0.65 / 0.68	*
NATS Diversified Growth Fund	33.3% Newton Real Return 33.3% Invesco Global Targeted Returns 33.3% Legal and General Investment Management Diversified Fund	0.93 / 0.97	*
NATS Cautious Fund	25% BlackRock DGF 25% Standard Life GARS 50% BlackRock DC Retirement Fund	0.56 / 0.58	*
NATS Pre-Retirement Fund	75% BlackRock DC Retirement Fund 25% BlackRock Cash	0.17 / 0.18	0.007
NATS Socially Responsible	Kames Ethical Equity	0.90 / 0.94	0.890
NATS Shariah Law	HSBC Amanah Fund	0.50 / 0.50	Not Available
NATS Global Equity	65%BlackRock DC Aquila MSCI World Index (hedged), 20% BlackRock DC Aquila MSCI World Index 15% BlackRock DC Aquila Emerging Markets Equity Index	0.21 / 0.23	-0.063
NATS Corporate Bond	BlackRock Aquila Life Non-gilts All Stocks	0.15 / 0.17	0.016
NATS Index-Linked Gilts	BlackRock Aquila Life Over 5 Year Index Linked Gilt	0.15 / 0.16	-0.010
NATS Fixed Interest Gilts	BlackRock Aquila Life Over 15 Year Gilt	0.15 / 0.16	-0.027
NATS Cash	BlackRock DC Cash	0.15 / 0.18	0.017

^a Due to the way in which transaction costs are calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity

* At the time of writing the transaction costs for the underlying managers were not available.

Aegon have a legislative duty to provide transaction costs to the Trustees and we have included what has been provided in the above table. However, Aegon, as platform provider, are dependent on the availability of this data from the underlying managers. The transaction costs data for a number of the funds has not been received by Aegon from the underlying managers and we have therefore been unable to disclose them in this statement. The Trustees and their advisors are working with Aegon to understand why the managers have not been able to provide transaction costs and remind them of their legislative duty to do so.

Illustration of the compounding effect of transaction costs and charges on members' benefits.

Using the charges and transaction cost data in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees' administrators, Aegon, have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, Aegon have based this on the youngest member with an age of 18 using a starting pot size of £18,000 based on the median fund size of the Scheme and a £675 monthly contribution which is assumed to increase by 3.5% per annum in line with assumed rises in pensionable salary.

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Projected Pension Pot (in today's money)

This isn't a personal illustration, it is based on the assumptions detailed later on in this document. The purpose of the illustration is to show how fund related costs and charges can affect the overall value of the funds you invest in over time.

Years	Default Income Drawdown Lifestyle*		NATS DC Cash		NATS Global Equity		NATS Index Linked Gilts		Aegon Kames Ethical Equity	
	Before charges £	After all charges £	Before charges £	After all charges £	Before charges £	After all charges £	Before charges £	After all charges £	Before charges £	After all charges £
1	26,500	26,300	25,800	25,800	26,600	26,600	25,800	25,800	26,600	26,100
3	44,500	43,900	41,700	41,500	45,100	44,900	41,700	41,600	44,800	43,100
5	63,900	62,600	57,800	57,400	65,200	64,800	57,900	57,700	64,500	60,700
10	118,000	114,000	99,100	97,900	123,000	121,000	99,600	98,800	120,000	108,000
15	183,000	174,000	142,000	139,000	193,000	190,000	143,000	141,000	188,000	161,000
20	260,000	242,000	186,000	183,000	278,000	273,000	188,000	185,000	269,000	219,000
25	350,000	321,000	233,000	228,000	380,000	371,000	236,000	232,000	365,000	284,000
30	455,000	411,000	282,000	275,000	503,000	488,000	287,000	280,000	478,000	355,000
35	578,000	513,000	334,000	324,000	649,000	627,000	340,000	331,000	612,000	434,000
40	718,000	627,000	388,000	375,000	823,000	791,000	396,000	385,000	770,000	520,000
45	862,200	743,000	446,000	429,000	1,020,000	985,000	455,000	441,000	954,000	615,000
47	916,000	785,000	470,000	451,000	1,120,000	1,070,000	479,000	465,000	1,030,000	656,000

Source: Aegon

The 'Before Charges' column shows each fund value without any transaction costs, charges or expenses being applied to the fund's holdings.

The 'After all charges' column shows the fund's holdings after transaction costs, charges and expenses have been deducted.

*Transaction cost information has not been received for the NATS Higher Growth Fund and the NATS Cautious Fund which make up the underlying funds of the Default Income Drawdown Lifestyle, as such the available TER of these funds has been considered.

About this illustration

- Current age is 18 and retirement age is 65. This is based on the youngest person in the Scheme.
- Current salary is £45,000 and will increase each year by 3.5%.
- Future contributions paid will be 18% of salary (£675 each month increasing by 3.5% each year in line with assumed salary increases).
- The existing fund value is £18,000 which based on the median value of the total fund holdings within the Scheme, from the lowest to the highest value and selecting the value in the middle.
- We have shown the default investment option that the majority of members invest in.
- We have also shown the NATS DC Cash and NATS Global Equity funds to show the asset classes with the lowest and highest assumed growth; and the NATS Index-Linked Gilts and Aegon Kames Ethical equity funds as the ones with the lowest and highest charges respectively.

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Investment Growth

The value of your investments will grow at a rate appropriate to the funds you are invested in and inflation will be 2.0% every year. This is an illustrative growth rate only. The investment growth achieved may be more or less than this and may vary depending on the fund(s) you are invested in.

The assumed growth rate used for each fund is shown in the table below

Growth* Assumptions				
Default Income Drawdown Lifestyle** (% p.a.)	NATS DC Cash (% p.a.)	NATS Global Equity (% p.a.)	NATS Index Linked Gilts (% p.a.)	Aegon Kames Ethical Equity (% p.a.)
-0.76 to 2.4	-0.76	3.00	1.30	2.73

*Growth is the assumed growth rate for the fund after taking into account assumed price inflation of 2% per annum.

** As the Lifestyle investment option consists of multiple investment funds we have shown the range of growth and fund costs and charges.

This rate is based on Aegon's view of potential long-term returns of the main asset classes (equities, property, corporate bonds, government bonds and cash) and will vary depending on the fund(s). The growth rates for mixed assets funds are derived from the assets class growth rates based on the investment objectives and long-term asset allocation of the funds.

If the growth rate Aegon have used is:

- the same as the rate of inflation, this reduces the growth rate, after making an allowance for inflation, to 0%.
- less than the rate of inflation, this produces a negative growth rate after making an allowance for inflation.

Value for members

The Trustees are committed to ensuring that members receive good value from the Scheme. There is no legal definition of "good value", so the process of determining good value is a subjective one. "Value" is not a straightforward concept to quantify and can be open to broad interpretation.

The Trustees have assessed the extent to which the charges and transaction costs set out above offer good value for members, and are regularly exploring ways in which to enhance the value received by members of the Scheme. The Trustees recognise that good value does not necessarily mean the cheapest fund (although as noted above they did renegotiate the pricing terms from the provider during 2018) and, in conjunction with their professional advisors, they undertook a value for money assessment which covered the following aspects:

- Member borne investment charges for the default and self-select options against comparable alternatives;
- Net of fees investment performance;
- Investment fund range and ratings;
- Other services paid for by members including administration and communication; and
- Wider key areas of the Scheme including governance oversight and features paid for by the Company.

The Trustees note a number of challenges in assessing transaction costs:

- No industry-wide benchmarks for transaction costs exist,
- The methodology leads to some curious results, most notably "negative" transaction costs,
- Transaction costs are already taken into account when investment returns are reporting, so any assessment must also be mindful of the return side of the costs.

The Trustees note the costs are reasonably small and appear not to have a significant impact on member's funds when compared to investment charges. However, the Trustees will continue to monitor transaction costs for value and monitor developments in assessing such costs.

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The Trustees concluded that the Scheme's overall benefits represent **good value for money** in comparison to the costs payable by members. The reasons underpinning this conclusion include:

- Nine of the eleven funds available were deemed as offering good value in relation to pricing (member-borne charges), performance and manager research ratings (representing c.98% of the Scheme's assets). One of the remaining funds was assessed as reasonable value (c.0.5% of assets) and one assessed as poor value (c.1% of assets), primarily as a result of the performance of the fund over recent years (the Trustees are monitoring performance of this fund closely).
- The funds used by the Scheme are generally highly rated by our investment advisors as having good prospects of achieving their objectives.
- Other services paid for members, including administration and communication services, were deemed good value.
- The Scheme was deemed to be well governed which helps the chances of members achieving good member outcomes in retirement.
- The members also receive value from features paid by the Company, including the cost of maintaining a Trustee board with duties to act in the best interests of beneficiaries. These costs include the board's advisory costs.

4. Trustee Knowledge and Understanding

The Pensions Act 2004 requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustees to exercise the function in question.

There is an induction process for new Trustees. All new Trustees are sent a link to Scheme documents including the latest Trust Deed & Rules (which are stored on an online repository). The MNT nomination process includes checks on 'fitness to act' as a Trustee. The Nomination form (in the communication to members contains a declaration of fitness checklist for the candidate to confirm and sign). The successful candidate is expected to complete the trustee toolkit within 3 months of acceptance of the role.

The Trustee board is comprised of 3 member nominated trustees and 4 company appointed trustees, one of which is an Independent Trustee. The Independent Trustee is Chair of the Scheme.

The independent chair also chairs a number of other similar pension schemes and the Independent Governance Committee of a top 100 PLC. The chair has years of pensions experience including negotiating on pensions at Board and Remuneration Committee level with a number of PLCs. He keeps up to date through attending the annual conference at the Pensions Management Institute and the Pension and Lifetime Savings Association. He keeps his knowledge refreshed holding the certificates in Defined Contribution and Defined Benefits trusteeship, the certificate in Defined Contribution Governance awarded by the Pensions Management Institute. The range and depth of experience helps set the pace and agenda.

Leadership is an increasingly important area for all the trustee boards. The Trustees had leadership training at the December 2018 trustee meeting through the "Lessons from geese" training video. This showed the style that the Trustees follow as a team of leaders. Whilst the chair sets the overall pace and agenda, individual trustees take the lead and ownership of different elements of the work including investment, accounting, communications, trustee selection, trustee discretions, supplier management, meetings with Board, management and unions. The team value diversity and seek to maintain that diversity as an element in trustee appointment. There are no silent voices with individual trustees providing leadership in different ways. The diversity supports informed debate and high quality decision making.

The Trustees are also required to explain how their combined knowledge and understanding, together with the advice which is available to them, enables them properly to exercise their functions as Trustees of the Scheme. Examples of the arrangements put in place under the Scheme to ensure this are as follows:

- All Trustees have completed the Pension Regulator's online Trustee Toolkit. This is mandatory for all trustees. The Trustees are aware of the recent changes and additions to the Trustee Toolkit modules and have updated their knowledge.
- The Trustees receive regular training and are encouraged to identify gaps in knowledge.

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- The Trustees receive regular investment training and receive manager presentations. During the year, the Trustees' received training on slippage costs, assessing value for members, the Pension Regulator's 21st Century Trusteeship, real return assets, Islamic global equity funds, passive and pre-retirement funds, ethical funds, the General Data Protection Regulations, ESG considerations in investments, Transaction Cost and Charges and implications of Brexit.
- In addition, the Trustees' Pension Consultant presented a current topics paper on a quarterly basis, covering such items as industry trends and important legislative requirements. The Trustees also receive quarterly legislative updates from the Scheme's legal advisors.
- The Trustees maintain a training register to keep a log of all training undertaken. The log is updated quarterly and assessed from the quarterly meetings to identify knowledge gaps.
- The Trustees take regular investment advice from their Investment Consultant on matters relating to the Scheme investments.
- Part of the Trustee secretariat function is outsourced to professional advisors. Consequently, the Trustees' agendas are prepared by professional advisors who do so with a view to ensuring compliance and best practice.
- The Trustees also receive advice from professional advisors and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

The Trustees are conversant with, and have demonstrated a working knowledge of the Scheme, documents such as the Trust Deed and Rules and the powers that they provide to them, Statement of Investment Principles and documents setting out the Trustee's compliance. They do this through their maintenance of a document and policy schedule which is a standing item at each meeting where key policies and documents are reviewed in turn and updated if appropriate. A copy of the review schedule is included in Appendix 3.

During the year the Trustees updated their:

- Internal Dispute Resolution Procedure (IDRP) policy: to reflect the fact that the Ombudsman can be contacted at any point in the dispute process and
- Member Nominated Trustee (MNT) Policy: seeking legal advice on changing the term of office and updating the policy accordingly.

The Trustees undertook a number of additional activities that involved giving detailed consideration to pensions and trust law, the Scheme's governing documents and investment principles. This allowed them to exercise their knowledge and understanding and to further strengthen their capabilities. These included:

- Exercising discretionary powers in relation to death cases, seeking advice from their professional advisors
- Considering their investment strategy and reviewing the Statement of Investment Principles

The Trustees also review and assess, on an ongoing basis (at least annually), whether the systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13. They look at all aspects of administration and risk in the Scheme including reviewing the DC Code in practice in detail. In addition, the Trustees consider their annual training plan on a quarterly basis.

Based on these actions, taken individually and as a Trustee body, and the professional advice available to them, the Trustees consider that they have sufficient skills and resources to properly exercise their function as a Trustee.

Chair's declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustees of the NATS Defined Contribution Scheme.

Signed: _____

Chairman NATS Defined Contribution Pension Scheme

Date: 18 June 2019

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NATS Defined Contribution Pension Scheme

Statement of Investment Principles – March 2018

1. Introduction

The purpose of this Statement of Investment Principles (the "Statement") is to record the investment principles of the Trustees of the NATS Defined Contribution ("DC") Pension Scheme (the "Scheme") in accordance with the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004 and Occupational Pension Scheme (Investment) Regulations 2005, and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The Scheme is a wholly-insured scheme as defined in Regulation 8 (2) of The Occupational Pension Schemes (Investment) Regulations 2005. As a result, the asset held by the Trustees is the policy of insurance issued by the Bundled DC Provider (the "Provider"). This Statement sets out the required principles governing decisions about the investment options available under this Policy for the Scheme and the reasons why it is a wholly-insured scheme.

Before preparing this Statement of Investment Principles, the Trustees have consulted with the Employer, (NATS Ltd), and obtained and considered written professional advice from Mercer Limited, the Scheme's investment consultants, regarding the Scheme's investment strategy.

2. The Trustees

The Scheme's assets are held in Trust by the Trustees. The Trustees are responsible for the investment of the Scheme's assets and their investment powers are set out in the Scheme's Trust Deed. The Trustees are responsible for some decisions and delegate the balance. When determining which decisions to delegate, the Trustees have taken into account whether they have the appropriate training and are able to secure the necessary expert advice in order to take an informed decision. Further, the Trustees' ability to effectively execute the decision is also considered.

3. Reasons for the wholly insured approach

A wholly-insured scheme is where all the assets (mainly excluding cash held in the Trustees' bank account) are held in one or more qualifying insurance policies. The Trustees consider that a wholly-insured approach is an appropriate arrangement. This route provides lower operational costs than alternative options and a reasonable range of services including a choice of investment options.

The Trustees will review the continued appropriateness of the wholly-insured approach at least triennially or more frequently if required.

4. Investment Policy

4.1 Objectives

The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. The Trustees also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances.

The following encapsulates the Trustees' objectives:

- To make available a range of investment funds and range of lifestyle strategies that should enable members to tailor their own investment strategy to meet their own individual needs.
- Offer funds which facilitate diversification and long term capital growth (in excess of inflation).
- Offer funds that enable members to reduce risk in their investments as they approach retirement.
- Offer funds which mitigate the impact of sudden and sustained reductions in market values or rises in the cost of purchasing annuities.
- To structure the range of funds, provide a suitable number of funds, and present this range in a manner which may make it easier for members to make investment decisions.
- To provide a default investment lifestyle strategy for members until they make their own investment decisions.

Chairman's Statement

The Trustees are responsible for deciding the range of funds and lifestyle strategies to offer to members. In determining what types of funds and lifestyle strategies are offered, the Trustees have taken investment advice regarding the suitability of investment vehicles considering factors such as: the asset class (or classes), the level of diversification and the nature of the member and investment objectives.

However, the Trustees have no influence over the investment aims of each underlying fund used or how the investment managers choose the underlying investments within each fund, as the assets are pooled with many other investors to obtain economies of scale. Nevertheless, notwithstanding how the assets of each fund are managed, the Trustees regularly obtain professional advice to monitor and review the suitability of the funds provided and from time to time may change the managers or investment options.

4.2 Risk

The Trustees have considered risk from a number of perspectives. These are:

- *Risk of capital loss in nominal terms.* The protection of capital, in the approach to retirement, in supporting the provision of benefits from the members' individual accounts.
- *Risk of erosion by inflation.* If investment returns lag inflation over the period of membership, the real (i.e. post inflation) value of the members' individual accounts will decrease.
- *Risk of returns from day-to-day management not meeting expectations.* This will lead to lower than expected returns to members. The Trustees recognise that the use of active investment management involves such a risk.
- *Market risk.* The value of securities, including equities and interest bearing assets, can go down as well as up. Members may not get back the amount invested. However, the Trustees realise that this risk is implicit in trying to generate returns above that earned by cash and accept this by investing in assets other than cash.
- *Liquidity risk.* The Scheme must be able to meet its liabilities as and when they become due. Members invest in a range of pooled investment vehicles that facilitate the availability of assets to meet benefit outflows.
- *Default risk.* The value of interest bearing securities would be at risk if a bond issuer or licensed deposit taker defaults on their commitments.
- *Conversion risk.* The costs of converting a member's accumulated defined contribution account into pension benefits at retirement is influenced by a number of factors such as the member's choice of retirement destination, long-term interest rates and life expectancy.

The Trustees recognise that all forms of investment carry some degree of risk. The Trustees have considered these risks when setting the Investment Strategy and ultimately the choice of funds made available to members as detailed in the following section.

5. Investment Strategy

5.1 Range of Funds and lifestyle strategies

The Trustees believe, having taken expert advice, that it is appropriate to offer a range of investment funds and lifestyle strategies to allow members to tailor their own investment strategy.

- The Trustees have decided to adopt three lifestyle strategies to reflect the different ways members can take benefits from DC pension savings at retirement (cash, income drawdown and annuity). If members can answer two key questions: when they intend retiring and how they want to take their benefits in retirement, these lifestyle strategies help less sophisticated members manage the investment strategy over the course of their working lifetimes.
- The Trustees have decided to adopt a core range of funds, defined by their risk/return characteristics to facilitate members choosing fund options which are broadly appropriate to their needs.
- The Trustees have also decided to offer a selection of non-core specialist funds for members wishing to more closely tailor their fund choices to their personal circumstances.

Chairman's Statement

- The Trustees have ensured, in accordance with recent legislation, that investments in the default lifestyle investment option will have a Total Expense Ratio (TER) not exceeding 0.75% p.a. The members pay a proportion of the applicable investment management charges for the funds through an annual ad valorem fee. The Company/Trustees pay the remainder through a fixed fee per member.

The Trustees have decided to offer the following types of funds and lifestyle strategies to members:

Lifestyle options

- Annuity Lifestyle – lifestyle option progressively and automatically switches members from higher risk/higher returning funds to lower risk/lower returning funds as the member approaches their selected retirement date, and is designed to be suitable for members wishing to purchase an annuity at retirement.
- Cash Lifestyle – lifestyle option progressively and automatically switches members from higher risk/higher returning funds to lower risk/lower returning funds as the member approaches their selected retirement date, and is designed to be suitable for members wishing to take a cash lump sum at retirement.
- Drawdown Lifestyle – lifestyle option progressively and automatically switches members from higher risk/higher returning funds to lower risk/lower returning funds as the member approaches their selected retirement date, and is designed to be suitable for members looking for the flexibility to drawdown their pension pot in retirement. The reduction in risk as the member approaches retirement is less than the cash and annuity lifestyles.

Core Funds

- Higher Growth – diversified across asset classes, but with a bias towards equities
- Cautious – diversified across asset classes, but with a bias towards bonds
- Pre-Retirement – investing in cash and longer dated bonds

Non-Core Funds

- Diversified Growth – diversified across asset classes
- Socially Responsible – invests in equities which meet a selection of socially responsible criteria
- Shariah Law – invests in equities which are deemed to be compliant with Shariah Law
- Global Equity – invests solely in passive global equities which are expected to provide the potential for strong returns over the longer-term, but with a higher level of volatility risk
- Corporate Bond – invests in investment grade corporate bonds denominated in sterling.
- Index-Linked Gilts – invests in index-linked UK government bonds with maturities of five years or longer.
- Fixed Interest Gilts – invests in fixed-interest UK government bonds with maturities of 15 years or longer.
- Cash – invests in Sterling denominated cash, deposits and money-market instruments.

Day-to-day management of the assets is at the discretion of the managers of the pooled funds.

The Trustees recognise that investment-related aspects of the conversion risk can be mitigated by the availability of suitable funds.

Members should not make investment decisions on the basis of this document.

5.2 Default Lifestyle Strategy

The Trustees recognise that, while the lifestyle strategy range and core fund range should help members choose funds, from an administrative perspective there is some merit in providing a default investment option for the vast majority of members who have not yet made their own choice of funds. The Trustees have decided that this default should take the form of the "drawdown lifestyle" option which is also available for members to choose deliberately.

The aims of the default investment option

The default lifestyle strategy manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. Any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.

In designing the default lifestyle strategy, the Trustees have 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.

Assets in the default lifestyle strategy are invested in the best interests of members and beneficiaries, taking into account the profile of members.

Assets in the default lifestyle strategy are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.

Assets are invested mainly on regulated markets (any that are not will be kept to prudent levels).

Policies in relation to the default investment option

The Trustees believe that:

The default lifestyle strategy's growth phase structure, which invests in equities and other growth-seeking assets, will provide growth with lower volatility than equities and some protection against inflation erosion.

As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that the default lifestyle strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. The default lifestyle strategy progressively and automatically switches members from higher risk/higher returning funds to lower risk/lower returning funds as the member approaches their selected retirement date, and is designed to be suitable for members looking for the flexibility to drawdown their pension pot in retirement.

The Trustees, having taken appropriate advice, have decided that switching should take place over a 10 year period.

Based on their understanding of the Scheme's membership, an investment strategy that targets income drawdown and a tax-free cash lump sum (up to 25% of a members' pot) at retirement is likely to meet a typical member's requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement – it merely determines the default investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative lifestyle strategy prior to retirement or even choosing their own investment strategy. The Trustees believe that a default strategy that maintains a well-diversified investment portfolio in the run up to retirement provides the best compromise against potential risks and ensures individuals are well equipped to navigate their options.

The Trustees are aware that no default fund or lifestyle option can be appropriate for all members because of their varying needs and attitudes to risk. The Trustees would therefore encourage members to make their own investment decisions, particularly with respect to the retirement outcome they would like to target.

The Trustees believe that this strategy meets the investment objective outlined in section 4.1 and controls the risks identified in section 4.2.

The Trustees will review the appropriateness of the default investment option periodically, or after significant changes to the Scheme's demographic, taking into account the demographics of the Scheme's membership and the Trustees' views of how the membership will behave at retirement. The detail regarding the funds and lifestyle strategies, including the default, are detailed in an Investment Policy Implementation Document.

The default investment option currently targets income drawdown and 25% cash lump sum at retirement. Alternative lifestyle strategies targeting a cash lump sum and annuity purchase, or 100% cash are also available.

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In addition, the selection, retention and realisation of assets within the pooled funds are delegated to the respective underlying fund managers in line with the mandates of the funds. Likewise, the underlying fund managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The Trustees' full policies on social, environmental or ethical considerations are detailed in Section 8 of this statement.

6. Day-to-Day Management of the Assets

The Trustees delegate the day to day management of the assets to the Provider and the underlying investment managers. The Trustees have taken steps to satisfy themselves that the Provider and underlying fund managers have the appropriate knowledge and experience for managing the Scheme's investments and they are carrying out their work competently.

The Trustees regularly review the continuing suitability of the Scheme's investments including the appointed Provider and the funds utilised, and these may be amended from time to time. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that targeted.

Details of the appointed Provider and the funds available can be found in a separate document produced by the Trustees entitled "Investment Policy Implementation Document", which is available to members on request.

7. Expected Return

The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustees believe that the range of funds offered should provide a range of potential returns that are suitable for the membership as a whole. The expected return targeted by each fund is shown in the "Investment Policy Implementation Document".

8. Socially Responsible Investment

The Trustees believe that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. The Trustees have given the Investment Managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Scheme's investments. Similarly, the Scheme's voting rights are 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.

Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Additionally, when choosing the funds available from the Provider, the Trustees decided to make available separate socially responsible and Shariah Law compliant funds as part of the non-core fund range.

9. Compliance with this Statement

The Trustees will monitor compliance with this Statement annually, or immediately after any change in strategy. In particular they will obtain written confirmation from the Provider that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Scheme (Investment) Regulations 2005.

10. Review of this Statement

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.

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Signed on behalf of the Trustees of the NATS Defined Contribution Pension Scheme

Signed: David Grimes Date: 13/3/18

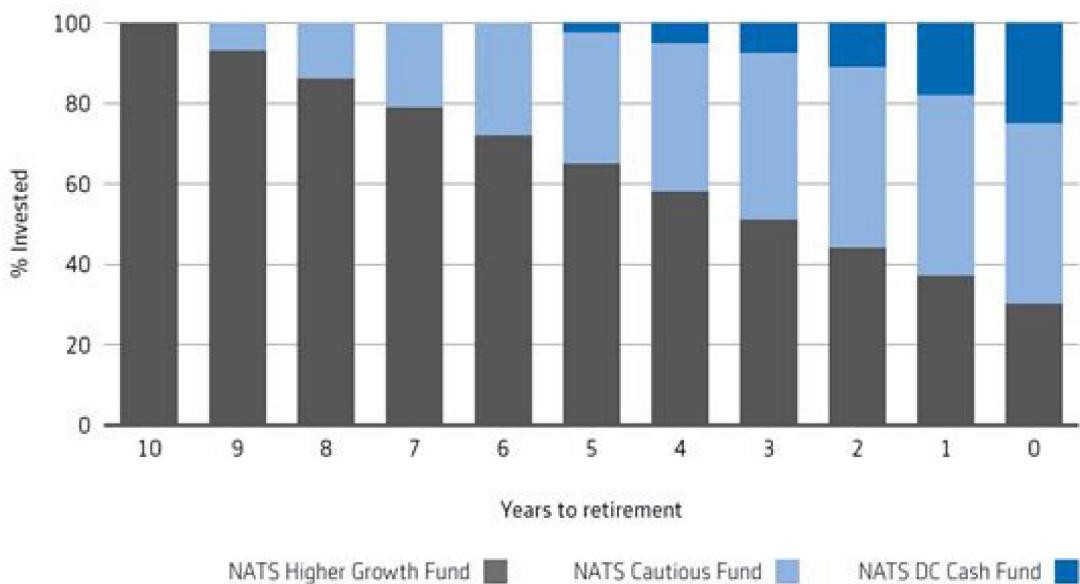
Name: David Grimes

Signed: James Rodger Date: 13/3/18

Name: James Rodger

APPENDIX 2- Transaction charges applicable in the decumulation phase of the default strategy.

Default: Income Drawdown Lifestyle



The following table details the weighted TER for each year in the 10 years to retirement based on the allocation of the underlying components which make up the default strategy. As outlined in the main statement transaction cost information is currently unavailable for some of the component funds.

Components of default strategy	% Allocation (years to retirement)										
	>10	9	8	7	6	5	4	3	2	1	0
NATS Higher Growth	100	93	86	79	72	65	58	51	44	37	30
NATS Cautious	0	7	14	21	28	32.5	37	41.5	45	45	45
NATS Cash	0	0	0	0	0	2.5	5	7.5	11	18	25
Total % Allocation	100	100	100	100	100	100	100	100	100	100	100
Weighted TER (% p.a.)	0.68	0.67	0.67	0.66	0.65	0.64	0.62	0.60	0.58	0.55	0.51

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APPENDIX 3 – Policy, Procedures and Scheme Documentation Review Schedule

Policies, Procedures and Scheme Documentation Review Schedule				
Frequency	Document Type	Description	Date last reviewed	Date of next review
Ongoing as required	Scheme document	Scheme Deed & Rules	December 2016	Ongoing
		EGLT Deed & Rules	December 2016	Ongoing
		Booklet & Contribution Schedules	Oct 2016	Ongoing
		Expression of wish form	March 2015	Ongoing
	Register	Trustee register of interests	June 2016	Ongoing
Annually	Scheme document	Value for money assessment	March 2018	March/April 2019
		Payment Schedule	June 2018	June 2019
		Statement of Investment Principles	March 2018	March/April 2019
	Trustee policy & dispositions	Retirement flexibilities	September 2018	September 2019
	Register	Risk register	March 2018	March/April 2019
	Statement	Chairman's Statement	May 2018	March/April 2019
	Scheme document	DC Code assessment	September 2018	September 2019
Every two years	Trustee policy	Bribery	June 2018	June 2020
		Conflicts of interest	September 2018	September 2020
Every three years	Trustee policy & dispositions	Transfers in	June 2016	June 2019
		Death benefit policy and procedure	June 2018	June 2021
		Member Nominated Trustees	September 2018	September 2021