

NATS Defined Contribution Pension Scheme

Annual Report for the year ended 31 December 2019

Chairman's Statement

I am pleased to present the Trustees' statement of governance, covering the period 1 January 2019 to 31 December 2019. 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 including the pounds and pence illustration of the compounding effect of charges; 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 communication services for the Scheme) and independent advisors, covering governance, investment advice and wider DC matters. The Trustees also recognise the valuable support which is provided to the Scheme by the Company within the HR and payroll functions.

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 September 2019 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, <https://www.nats.aero/home/nats-defined-contribution-pension-scheme/> 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.

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.

It should be noted that as well as reviewing the default strategy during 2017 the Trustees reviewed the blended funds within the lifestyle strategies implementing some changes from March 2018 and then they further 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 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 Trustees have also continued to review the fund managers under the Scheme considering possible options from alternative managers in the period since the last formal review. The next scheduled review is due to commence in 2020, although the Trustees are conscious of the unprecedented times seen at the beginning of 2020 and therefore they will be seriously considering the timing of any review or investment changes in view of the impact on the financial markets.

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The Trustees continue to 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

Following the DWP's requirements which came into force on 1 October 2019, the Trustees reviewed and updated the SIP setting out how they take account of financially material considerations, including Environmental, Social and Governance (ESG) considerations, and explicitly climate change. In addition, in line with the requirements, the SIP also includes 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 continue to 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 2019 to 31 December 2019, an overall service level of 90.84%, for core financial transactions, was achieved by Aegon compared with a target level based on actual activity of approximately 97.70%. The overall service level achieved in 2019 was lower than the previous year due to substantially increased membership activity and a subsequent need for increased staffing and training requirements at Aegon. However, the reduced service level is largely reflective of activity in the early part of the year and the Trustees have continually monitored the position with regular updates from the administrator and are satisfied that the service delivery during the year has shown steady improvement back to the expected level.

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 2019, 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 31 December 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.

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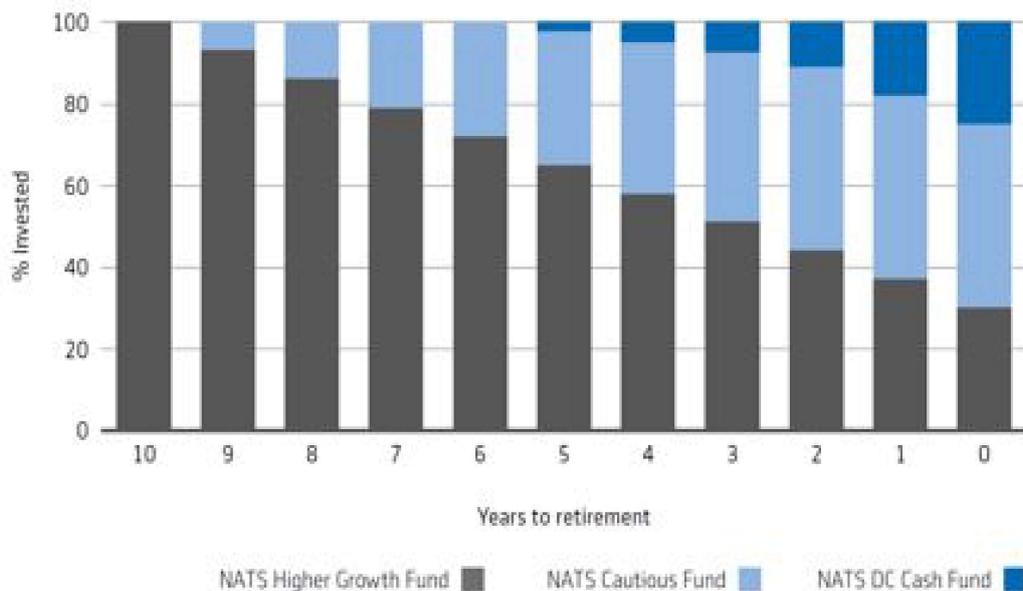
Chairman's Statement

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	0.59 / 0.60	0.122
NATS Diversified Growth Fund	33.3% BlackRock Newton Real Return 33.3% Invesco Global Targeted Returns 33.3% Legal and General Investment Management Diversified Fund	0.83 / 0.84	0.201
NATS Cautious Fund	50% NATS Diversified Growth 50% BlackRock DC Retirement Fund	0.51 / 0.52	0.109
NATS Pre-Retirement Fund	75% BlackRock DC Retirement Fund 25% BlackRock Cash	0.17 / 0.18	0.015
NATS Socially Responsible	Kames Ethical Equity	0.90 / 0.94	0.257
NATS Shariah Law	HSBC Amanah Fund	0.50 / 0.50	0.047
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	0.006
NATS Corporate Bond	BlackRock Aquila Life Non-gilts All Stocks	0.15 / 0.17	0.024
NATS Index-Linked Gilts	BlackRock Aquila Life Over 5 Year Index Linked Gilt	0.15 / 0.16	0.060
NATS Fixed Interest Gilts	BlackRock Aquila Life Over 15 Year Gilt	0.15 / 0.16	0.009
NATS Cash	BlackRock DC Cash	0.15 / 0.18	0.011

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

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 overleaf.

Default: Income Drawdown Lifestyle



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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.)	0.60	0.59	0.59	0.58	0.58	0.56	0.55	0.54	0.52	0.49	0.46

Illustration of the compounding effect of transaction cost 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 £735 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.

Impact of transaction costs and charges on fund values (£)										
Y e a r s	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	27,263	27,101	26,558	26,516	27,400	27,353	26,581	26,538	27,331	26,984
3	46,829	46,132	43,855	43,679	47,422	47,218	43,949	43,772	47,125	45,634
5	67,848	66,309	61,401	61,029	69,167	68,713	61,600	61,226	68,505	65,222
10	127,308	122,120	106,434	105,298	131,862	130,282	107,043	105,899	129,563	118,531
15	197,813	186,316	153,288	150,998	208,134	204,527	154,521	152,207	202,896	178,528
20	280,985	259,872	202,162	198,331	300,366	293,548	204,235	200,350	290,480	245,862
25	378,666	343,865	253,270	247,509	411,332	399,765	256,401	250,541	394,587	321,244
30	492,945	439,485	306,839	298,757	544,258	525,966	311,251	303,005	517,820	405,444
35	626,185	548,042	363,111	352,309	702,887	675,363	369,031	357,979	663,170	499,299
40	778,531	668,974	422,343	408,419	891,571	851,651	430,006	415,719	834,059	603,722
45	935,254	790,669	484,811	467,352	1,115,358	1,059,082	494,458	476,494	1,034,414	719,701
47	993,181	835,506	510,770	491,778	1,215,982	1,151,845	521,280	501,718	1,123,792	769,567

Source: Aegon

"Years" means the number of years of membership of the Scheme assuming the member joins the Scheme on a salary of £49,000.

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.

About this illustration

- The youngest age is 18 and the retirement age is 65.
- Current salary is £49,000 and will increase each year by 3.5%.
- Future contributions paid will be 18% of salary (£735 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 formally assessed the extent to which the charges and transaction costs set out above offer good value for members in June 2019, and are regularly exploring ways in which to enhance the value received by members of the Scheme - during 2019 roadshows were delivered across multiple sites by the administrator to increase member engagement and understanding and the Trustees continue to work with Aegon to ensure the membership can benefit from any future developments in their offering. 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 full formal value for money assessment for the year to 31 December 2018 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 members' 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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There have been no significant changes to impact the formal assessment and the Trustees continue to conclude 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:

- 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.

Whilst a formal assessment was not undertaken for the year to 31 December 2019, the Trustees considered value for members at the 19 May 2020 meeting and are confident that the conclusions they reached at the last formal review remain unchanged. They have continued to monitor the performance of all funds and are pleased to note at the year-end there were no long term concerns in performance with good returns on all funds over a three year period.

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. Just prior to this year the Trustees had leadership training - 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 as these occur.
- The Trustees receive regular training and are encouraged to identify gaps in knowledge.
- The Trustees receive regular investment training and receive manager presentations. During the year, the Trustees' received training on retirement options including wider industry metrics; the role of an Authorised Fund Manager; implications of the Competition and Market Authority's review; Audit Controls and contribution risk in the DC industry; refresher training on time weighted versus money weighted returns; strategy for investment of unallocated assets; application of ESG beliefs; and, Plan manager refresher training.

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- 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. The table below sets out the Review Schedule as at May 2020.

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	
		Booklet & Contribution Schedules	October 2016	Ongoing	
		Expression of wish form	March 2015	Ongoing	
	Register	Trustee register of interests	June 2016	Ongoing	
Annually	Scheme document	Value for money assessment	May 2020	May 2021	
		Payment Schedule	June 2019	August 2020	
		Statement of Investment Principles	September 2019	September 2020	
		DC Code assessment	October 2019	September 2020	
	Trustee policy & discretions	Retirement flexibilities	December 2019	September 2022	
	Register	Risk register	October 2019	September 2020	
Every two years	Trustee policy	Statement	Chairman's Statement	June 2020	May 2021
		Bribery	June 2018	August 2020	
		Conflicts of interest	September 2018	September 2020	
Every three years	Trustee policy & discretions	Transfers in	June 2019	August 2020	
		Death benefit policy and procedure	June 2018	June 2021	
	Trustee policy	Member Nominated Trustees	September 2018	September 2021	

During the year the Trustees updated their Risk Register to include the additional risks facing both members and the Scheme, considering the mitigations currently in place and liaising with their advisors, the Company and third party providers to ensure that processes are in place for risks that were identified.

The Trustees also reviewed the Retirement Flexibilities Policy, considering the current Rules in line with industry trends, the options available to members and the support provided.

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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
- Considering the outcome of the Competitions Market Authority review and as a result putting in place strategic investment objectives for their investment advisors, Mercer, which will continue to be reviewed and updated as appropriate.

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: David Grimes

Chairman NATS Defined Contribution Pension Scheme

Date: 22/7/2020

NATS Defined Contribution Pension Scheme

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NATS Defined Contribution Pension Scheme

Statement of Investment Principles – September 2019

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. Responsible Investment and Corporate Governance (Voting and Engagement)

The Trustees believe that environmental, social, and corporate governance ("ESG") factors may have a material 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 may require explicit consideration.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations 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.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. This is done using ESG ratings on funds provided by the Scheme's investment consultant. These ratings represent the extent to which managers integrate ESG factors and active ownership into their core processes. The ESG ratings for the existing investment managers are provided on a quarterly basis.

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future. The Trustees have agreed to monitor developments in this area within the confines of the funds made available to the Scheme by the Provider.

NATS Defined Contribution Pension Scheme

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5. Investment Objectives and Policies

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.

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.

5.2 Investment Policies

The Trustees have made available a range of individual self-select fund options for investment in addition to the default investment option. A range of asset classes has been made available, including: equities, diversified growth funds, money market investments, gilts, index-linked gilts, corporate bonds and pre-retirement funds. It is the Trustees' policy to offer both active and passive management options to members where appropriate, depending on asset class. All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets.

All of the funds allocated to within the default investment option are also available as self-select options. More details specifically related to the default investment option are provided in a separate section in this Statement.

The Trustees' policy in relation to the balance between the different kinds of investment is set out in the 'Investment Strategy' section of this Statement (section 6).

The Trustees have considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed. *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.

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Risk	How is it managed	How is it measured
<p>Inflation Risk</p> <p>The real value (i.e. post inflation) value of members' accounts decreases.</p>	<p>The Trustees provide members with a range of funds, across various asset classes, with the majority expected to keep pace with inflation (with the exception of the money market and fixed interest bond funds).</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation.</p>
<p>Pension Conversion Risk</p> <p>Member's investments do not match how they would like to use their pots in retirement.</p>	<p>The Trustees make available three lifestyling strategies for DC members, each targeting either cash, drawdown or annuity.</p> <p>Lifestyle strategies automatically switch member assets as they approach retirement into investments that are expected to be less volatile relative to how they wish to access their pension savings. These lifestyling strategies increase the proportion of assets that more closely match the chosen retirement destination as members approach retirement. This aims to reduce the risk of a substantial fall in the purchasing power of their accumulated savings near retirement.</p>	<p>Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to inflation, cash or annuity prices (depending on their selected retirement destination).</p>
<p>Market Risk</p> <p>The value of securities, including equities and interest bearing assets, can go down as well as up.</p>	<p>The Trustees provide members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their risk tolerances.</p> <p>For the multi-asset funds which are targeting non-market benchmarks, this is delegated to investment managers.</p>	<p>Monitoring the performance of investment funds on a quarterly basis.</p>
<p>Counterparty Risk</p> <p>A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.</p>	<p>Delegated to investment managers.</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Monitoring the performance of investment funds on a quarterly basis.</p>
<p>Currency Risk</p> <p>The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates.</p>	<p>The Trustees provide diversified investment options that invest in local as well as overseas markets and currencies.</p> <p>Delegated to investment managers.</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Monitoring the performance of investment funds on a quarterly basis.</p> <p>Consideration to the movements in foreign currencies relative to pound sterling</p>
<p>Liquidity Risk</p> <p>Assets may not be readily marketable when required.</p>	<p>The Trustees access daily dealt and daily priced pooled funds through the Provider.</p>	<p>The pricing and dealing terms of the funds underlying the unit-linked insurance contract</p>

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<p>Valuation Risk</p> <p>The value of an illiquid asset is based on a valuer's opinion, realised value upon sale may differ from this valuation.</p>	<p>Some multi-asset managers may hold illiquid assets. In such cases, the management of valuation risk is delegated to the external investment manager.</p> <p>The majority of investment managers invest solely in liquid quoted assets.</p>	<p>The Trustees monitor performance of funds on a quarterly basis, and where relevant delegates the monitoring of valuation risk to the investment consultant.</p>
<p>Environmental, Social and Governance Risk</p> <p>ESG factors can have a significant effect on the performance of the investments held by the Scheme e.g. extreme weather events, poor governance.</p>	<p>Delegated to investment managers.</p> <p>The Trustees' policy on ESG risks is set out in Section 4 of this Statement.</p>	<p>Section 4 of this Statement also covers how the Trustees monitor the extent to which managers integrate ESG factors and active ownership into their core processes.</p>
<p>Manager Skill / Alpha Risk</p> <p>Returns from active investment management may not meet expectations, leading to lower than expected returns to members.</p>	<p>The Trustees make available a number of actively managed funds to DC members where they deem appropriate; for example, multi-asset funds.</p> <p>The actively managed funds made available are highly rated by their investment consultant, based on forward-looking expectations of meeting objectives.</p>	<p>The Trustees consider the ratings of investment strategies from their investment consultant during the selection process.</p> <p>Trustees monitor performance and rating of funds on an ongoing basis relative to the fund's benchmark and stated targets/objective</p>

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.

The risks identified in the above table are considered by the Trustees to be 'financially material considerations'. The Trustees believe the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their selected retirement age. It is for this reason that a number of lifestyle options have been made available to members.

Member views, when expressed, are considered in relation to financial and non-financial matters. The Trustees have made available separate socially responsible and Shariah Law compliant funds as part of the non-core fund range as options to members who wish to invest ethically or sustainably or according to particular religious principles.

The Trustees' policy in relation to the expected return on investments is set out in Section 8 of this Statement.

In selecting assets, the Trustees consider the liquidity of the investments in the context of the likely needs of members. All assets are daily dealing and therefore should be realisable based on member demand.

6. Investment Strategy

6.1 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.

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- 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 fund.

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.

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6.2. Default Lifestyle Strategy

The Trustees recognise that, while the lifestyle strategy range and core fund range should help members choose funds, not all members wish to make an active choice that is tailored to their individual circumstances. Therefore, the Trustees have provided a default investment option. 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 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 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.

Policies in relation to the default investment option

A range of asset classes are included within the default investment option (within the blended funds used), including: developed market equities, emerging market equities, money market investments, diversified growth funds and pre-retirement funds. All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets. It is the Trustee's policy to utilise both active and passive management within the default investment option, depending on the asset class.

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. The expected return targeted by each fund in the default lifestyle strategy is shown in the "Investment Policy Implementation Document".

The default investment option allocates to a diversified strategic asset allocation consisting of traditional and alternative assets. The asset allocation is consistent with the expected amount or risk that is appropriate given the age of a member and their selected retirement age.

The Trustees have considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

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Risk	How it is managed	How it is measured
<p>Inflation Risk</p> <p>The real value (i.e. post inflation) value of members' accounts decreases.</p>	<p>During the growth phase of the default investment option the Trustees invest in a diversified range of assets which are likely to grow in real terms.</p> <p>The default investment option invests in a diversified range of assets which are considered likely to grow in excess of inflation.</p>	<p>Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation.</p>
<p>Pension Conversion Risk</p> <p>Member's investments do not match how they would like to use their pots in retirement.</p>	<p>The default investment option is a lifestyling strategy which targets flexible access income drawdown as a retirement destination.</p> <p>The Trustees believe that a strategy targeting drawdown minimises the overall pension conversion risk for the relevant members accessing pots in a different manner (annuity or drawdown).</p>	<p>Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to inflation (the retirement destination).</p> <p>As part of the triennial default strategy review, the Trustees ensure the default destination remains appropriate.</p>
<p>Market Risk</p> <p>The value of securities, including equities and interest bearing assets, can go down as well as up.</p>	<p>The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustees.</p> <p>For the diversified growth funds which are targeting non-market benchmarks this is delegated to investment managers.</p>	<p>Monitoring the performance of the default investment strategy on a quarterly basis.</p>
<p>Counterparty Risk</p> <p>A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.</p>	<p>In line with the main Scheme.</p> <p>Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustees.</p>	<p>Monitoring the performance of the default investment option on a quarterly basis.</p>
<p>Currency Risk</p> <p>The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates.</p>	<p>A large proportion of equity allocation of the default investment option is currency hedged. Within the diversified growth funds the currency risk management is delegated to investment managers.</p> <p>Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustees.</p>	<p>The Trustees reviews the level of currency hedging used in the equity portfolio as part of the triennial default strategy review.</p> <p>Monitoring the performance of investment funds on a quarterly basis.</p> <p>Consideration to the movements in foreign currencies relative to pound sterling.</p>
<p>Liquidity Risk</p> <p>Assets may not be readily marketable when required.</p>	<p>In line with the main Scheme.</p>	<p>In line with the main Scheme.</p>
<p>Valuation Risk</p> <p>The value of an illiquid asset is based on a valuer's opinion, realised value upon sale may differ from this valuation.</p>	<p>Some multi-asset managers may hold illiquid assets. In such cases, the management of valuation risk is delegated to the external investment manager.</p> <p>The majority of underlying holdings within the default investment strategy are invested in liquid quoted assets.</p>	<p>In line with the main Scheme.</p>

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<p>Environmental, Social and Governance Risk</p> <p>ESG factors can have a significant effect on the performance of the investments held by the Scheme e.g. extreme weather events, poor governance.</p>	<p>In line with the Scheme.</p> <p>The Trustees' policy on ESG risks is set out in Section 4 of this Statement.</p>	<p>In line with the main Scheme.</p>
<p>Manager Skill / Alpha Risk</p> <p>Returns from active investment management may not meet expectations, leading to lower than expected returns to members.</p>	<p>In line with the main Scheme.</p> <p>The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustees.</p>	<p>In line with the main Scheme.</p>

The risks identified in the above table are considered by the Trustees to be 'financially material considerations'. The Trustees believe the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their selected retirement age. It is for this reason that a number of lifestyle options have been made available to members.

Member views, when expressed, are considered in relation to financial and non-financial matters.

In selecting assets, the Trustees consider the liquidity of the investments in the context of the likely needs of members. All assets are daily dealing and therefore should be realisable based on member demand.

Suitability of the default investment option

Taking into account the demographics of the Scheme's membership and the Trustees' views of how the membership will behave at retirement, the Trustees believe that the default strategy outlined in this document is appropriate. The rationale underpinning this belief is as follows:

- The Trustees believe that most members save into a pension scheme to achieve an income in retirement. However, the Trustee also believes that members will utilise the new flexibility available to them at retirement. The targeting income drawdown at retirement is aligned with both these beliefs. This does not mean that members have to take their benefits in this format at retirement - it merely determines the investment strategy that will be in place pre-retirement.
- In addition, 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.
- Experience shows that almost all members withdraw tax-free cash at retirement. The use of the Cash fund within the default option addresses that requirement.
- Members seeking an adequate income in retirement will likely need to achieve real investment returns for most of their period as pension savers. The retention of some exposure to growth seeking assets throughout the glidepath phase addresses that requirement.

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. Alternative lifestyle strategies targeting a cash lump sum and annuity purchase, or 100% cash are also available.

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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.

7. 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.

8. 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".

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.

This Statement of Investment Principles was formally adopted by the Trustees of the NATS Defined Contribution Pension Scheme on 25th September 2019