THALES UK PENSION SCHEME

Your Additional Voluntary Contribution and Defined Contribution Investment Choices

The Trustee of the Thales UK Pension Scheme ("the Scheme") have made available this guide in relation to the Scheme's Additional Voluntary Contribution (AVC) and Defined Contribution (DC) arrangements. The guide includes information about things you should consider when making any investment decisions.

DC Contributions and AVCs

- **DC Contributions** are contributions made to the Scheme as part of a defined contribution pension arrangement. These include where applicable, DC contributions paid in the form of 'employer supplementary contributions', 'special reserve accounts' and some individual transfers-in to the Scheme from other pension arrangements outside Thales.
- **AVCs** are also defined contributions that some members may have made to supplement their core pension benefits.

No new DC or AVC contributions were accepted by the Scheme after 31 December 2007. From 1 January 2008, voluntary contributions to provide extra retirement benefits could be paid to a separate scheme, the Thales UK Pension Savings Plan.

The investment options give you:

- A choice of 9 competitive funds across the main investment types
- Ease of switching between funds as your needs change
- Access to a dedicated website with information about all the funds available

Inside you'll find information about:

- Investment risk and things you should consider
- Your investment options and how to change funds (if you wish to do so)
- How the Scheme is administered

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The content of this note does not constitute investment advice. The Trustee is unable to offer advice as to whether any funds are appropriate for you and if you are unsure on which funds to choose, recommends that you seek regulated financial advice. If you have any doubts about your investment decisions, or think it prudent to have a professional opinion on those decisions, you should speak to an independent financial adviser (IFA) who is regulated by the Financial Conduct Authority (FCA). You can find details of IFAs on the FCA's register (https://register.fca.org.uk/s/). There is also a directory of advisers at the Money Advice Service (www.moneyhelper.org.uk). While IFAs are authorised to give you advice on your investments, the Trustee cannot, by law, provide financial advice.

The Government has also set up a service which offers free and impartial pensions guidance. Further details of this service, called 'Money Helper' can be found at www.moneyhelper.org.uk

The type of investments you may want to hold depends upon your personal circumstances. Past performance is not a guarantee of future performance and the value of investments, including funds, can go down as well as up.

Governance of the investment options

The Trustee is responsible for offering members appropriate investment options and so monitors the funds on offer and takes professional advice about the investment funds which can be made available to members.

Understanding investment risk

Once you retire, you can use the value of your AVC/DC account to buy a pension and in some circumstances take a tax-free cash lump sum, depending on the terms of your membership. The amount of pension/cash depends on several factors, including the value of your account when you retire. That's why it's important to carefully consider how you invest your funds.

Investing is about trying to earn a reward on the money you're saving – but with every opportunity for a reward, there is also a potential risk. Successful investing is about striking the right balance between possible risks and the potential return. Understanding the risks will help you decide which investments are right for you.

Investment risk and return are directly related. An investment with potentially higher returns over the long term will, at the same time, have higher potential risks, especially over the short term. At the same time, an investment that is less risky generally offers lower potential long-term gains. Keep in mind that there is no such thing as a risk-free investment.

When investing your AVC/DC funds through the Scheme, there are three main risks of which you should be aware:

- **Inflation –** this is the risk that your account won't grow fast enough to keep up with rising costs, so the buying power of your savings isn't as strong.
- **Volatility –** This is the risk that your investments are subject to sudden and significant short-term changes in value, and it's what people mean when they say "the value of your investment can go down as well as up". This risk becomes more important as you get closer to retirement, because you have fewer years to recover from any short-term drop in the value of your investments.
- **Conversion –** This is the risk that the cost of buying a pension (annuity) with your AVC/DC account will go up, if you choose this option. While it's not possible to react to changes in life expectancy, the cost of providing a pension also depends on the level of long-term interest rates when you retire: lower rates mean that it's more expensive to buy a pension. There are different types of annuities which will also affect the "conversion" rate.

It's important that you consider these risks and how they may affect you when deciding how to invest your account. You'll want to re-evaluate these risks from time to time as you get closer to retirement.

Fund options
The Scheme offers **9 different investment funds**, which feature different balances of potential risk and reward. You can choose to invest in a single fund that is right for you, or invest portions of your account balance in multiple funds.

The Trustee will continue to regularly review these funds and the investment managers to ensure they are performing in line with expectations. We've listed the 9 investment funds that the Scheme offers in the table below. You can find out more about each fund on page 5. You also have access to detailed information from Scottish Widow's dedicated website which can be accessed either via the Scheme's website, Member Web, at http://thales.xpmemberservices.com/member-info/avc-dc-fund-information or directly via www.scottishwidows.co.uk/save/thales. Scottish Widows' website provides access to details about how the funds are invested and their investment returns.

Fund name	**Actively or passively managed**	**Total Expense Ratio (% p.a.)**	**Level of expected risk (volatility)**
Thales UK Pension Scheme Socially Responsible	Active	0.79	High
Thales UK Pension Scheme UK Equity	Passive	0.18	
Thales UK Pension Scheme Global Equity	Passive	0.23	
Thales UK Pension Scheme Global Multi-Asset	Active	0.48	
Thales UK Pension Scheme Diversified Growth	Active	0.87	
Thales UK Pension Scheme Corporate Bond	Active	0.47	
Thales UK Pension Scheme Long Dated Gilt	Passive	0.21	
Thales UK Pension Scheme Index Linked Gilt	Passive	0.21	
Thales UK Pension Scheme Money Market	Active	0.22	Low

Source: Scottish Widows. Figures shown as at May 2022

How to read this table
The table lists the available investment funds in order from those with the highest potential risk (but also the highest potential reward) to those that are considered most safe (but have a lower potential reward).

We've also indicated whether each fund is actively or passively managed.

- If a fund is **passively managed**, it means that the fund is invested in a predetermined strategy that is designed to match a certain benchmark, or index (for example, the FTSE All-Share Index).
- If a fund is **actively managed**, it means that the fund manager is making investments with the goal of getting returns higher than the benchmark against which the fund is measured. As a result, successful active management can gain higher returns over the long-term, but unsuccessful active management could result in larger decreases in value. Additionally, actively managed funds tend to have higher management fees, because of the greater resources needed to manage the fund.

Finally, the table above also indicates the total expense ratio for each fund. This charge is inclusive of the annual management charge, and additional fund expenses, and is priced into the value of the fund. This means that you don't have to pay the charge out of pocket, but the value of your fund is lowered to compensate for the charge.
- This charge includes expenses incurred by the investment manager and platform provider, and the 'governance' cost of monitoring the managers and platform provider.
- The charge also includes the variable costs such as the custodian fees, stockbroker commission, bid/offer spreads and stamp duty, which are also deducted from the value of your fund.

Composition and objectives of the funds

Name	Type of underlying assets	Objective
Thales UK Pension Scheme Socially Responsible	Shares of global high quality growth companies, which can deliver positive change.	Higher long-term growth, while expected to be subject to higher short-term fluctuations in fund values
Thales UK Pension Scheme UK Equity	Shares of UK companies	Higher long-term growth, while expected to be subject to higher short-term fluctuations in fund values
Thales UK Pension Scheme Global Equity	Shares of UK and overseas companies	Higher long-term growth, while expected to be subject to higher short-term fluctuations in fund values
Thales UK Pension Scheme Global Multi-Asset	Multiple	Long-term growth, while expected to be subject to higher short-term fluctuations in fund values
Thales UK Pension Scheme Diversified Growth	Multiple including "alternative" assets	Long-term growth, while expected to be subject to moderate short-term fluctuations in fund values
Thales UK Pension Scheme Corporate Bond	UK corporate bonds	Moderate long-term growth, while expected to be subject to moderate short-term fluctuations in fund values
Thales UK Pension Scheme Long Dated Gilt	UK government bonds (gilts)	Moderate long-term growth, while expected to be subject to lower short-term fluctuations in fund values
Thales UK Pension Scheme Index Linked Gilt	UK government index linked bonds	Moderate long-term growth, while expected to be subject to lower short-term fluctuations in fund values
Thales UK Pension Scheme Money Market	Cash deposits and short term financial instruments	Limited long-term growth, while expected to be subject to limited fluctuations in fund values over the short-term

See the appendix on page 10 for the characteristics of each main type of investment.

Underlying investment managers for each of the funds

The 9 funds are all branded as Thales UK Pension Scheme funds. The Trustee can change the underlying fund managers at any time if, for example, concerns arise regarding the current fund manager or a new and more attractive alternative becomes available. As at the date of this brochure, the underlying fund managers of the 9 funds are as follows:

Thales UK Pension Scheme Fund	**Current underlying fund manager**
Global Equity	Legal & General Investment Management
UK Equity	Legal & General Investment Management
Socially Responsible	Baillie Gifford
Diversified Growth	Insight Investment
Global Multi-Asset	Legal & General Investment Management
Corporate Bonds	M&G
Long Dated Gilts	Legal & General Investment Management
Index-Linked Gilts	Legal & General Investment Management
Money Market	BlackRock Asset Management

The lifestyle strategy

An alternative to investing in one or more of the Scheme's investment funds is to select the **default lifestyle strategy**. This strategy adjusts your investments over time, to help you grow your account initially and then protect its value as you get closer to retirement.

If you have 10 or more years until your planned retirement date, the lifestyle strategy invests in the Global Equity and Diversified Growth funds. These funds are expected to provide a higher rate of return over the long-term, relative to interest rates and inflation; however, these funds may vary in value more significantly over the short-term.

Once you have less than 10 years left until your Normal Retirement Date, the lifestyle strategy begins to move your account balance over time. Over a 9 year period, your balance will move to funds which may be expected to provide a lower rate of return over the long-term, but are expected to keep a more stable value and broadly follow the cost of turning your savings into a pension and a cash lump sum when you retire, as shown in the table below.

	Percentage of account balance invested in each fund				
Years to retirement	**Global Equity**	**Diversified Growth**	**Corporate Bonds**	**Long-dated Gilts**	**Money Market**
10+	50	50	0	0	0
9	40	50	10	0	0
8	30	50	20	0	0
7	20	50	30	0	0
6	10	50	40	0	0
5	0	50	40	10	0
4	0	40	30	20	10
3	0	30	20	30	20
2	0	10	10	50	30
1	0	0	0	60	40
0	0	0	0	60	40

The rebalancing and switching of funds, as shown in the table above, will take place quarterly.

Investing in this lifestyle strategy can be a good option if you are planning to purchase an annuity as it is pre-designed with that in mind. However, because of this it might not be right for your circumstances, for example, if you aren't comfortable with the risk/reward balance of the funds, if you are not planning on taking an annuity or you are concerned that the strategy wouldn't provide you with the benefits you want at retirement. Before you select the lifestyle strategy, you may wish to consider whether the individual funds are better suited for your needs.

For members who were previously invested with Utmost (heritage Equitable Life), all AVC savings were automatically transitioned across to the DC Section, where they were invested in the **Legacy Equitable Life With Profits - Lifestyle Strategy**.

Six of the funds that the Trustee make available under the DC Section are used to construct the legacy lifestyle strategy. Under this lifestyle arrangement, members who are 15 or more years away from their expected retirement age, have their savings predominantly invested in funds which may be expected, over the long-term, to provide a reasonable rate of return relative to interest rates and inflation.

The initial target allocation is split as follows: 40% in global equities, 40% in diversified growth, 15% in corporate bonds and 5% in index-linked gilts.

In the 15 years leading up to their expected retirement age, members' savings are gradually moved into funds with a lower-risk profile, which are considered to offer more protection from market volatility.

The strategy concludes with a 100% allocation to money market that broadly matches the expectation that members will take their funds entirely in the form of tax-free cash from the Scheme.

	Percentage of account balance invested in each fund					
Years to retirement	**Global Equity**	**Diversified Growth**	**Corporate Bonds**	**Index Linked Gilts**	**Long-dated Gilts**	**Money Market**
15+	40	40	15	5	0	0
14	30	40	20	10	0	0
13	20	40	25	10	5	0
12	10	40	30	10	10	0
11	5	40	30	10	15	0
10	0	40	30	10	20	0
9	0	35	30	10	20	5
8	0	30	30	10	20	10
7	0	30	25	10	20	15
6	0	25	25	10	20	20
5	0	20	25	5	20	30
4	0	10	20	5	15	50
3	0	5	10	5	10	70
2	0	0	5	0	5	90
1	0	0	0	0	0	100
0	0	0	0	0	0	100

Please note, however, that this lifestyle strategy is not a With-Profits fund and does not provide any guarantees. This fund is not available to all members within the DC Section, and if members select to transfer away from this arrangement, it will not be available for selection at a later date.

Changing your investments

If you wish to make changes to the funds you are invested in you will need to complete the Investment Switch form which is available on the Scheme's website at http://thales.xpmemberservices.com/member-info/member-forms, or by contacting the Scheme administrator (see below).

Changes to your investments will normally take place on the same working day or over two working days, so the length of time your savings will not be invested is minimised.

The Scheme does not charge for switching funds, but there are some costs associated with buying and selling any investment such as stockbroker commissions and stamp duty. There are also some risks of adverse (or favourable) changes in the prices of investments while your savings are moving from one fund to another and are not invested in either fund. The Trustee has chosen to use a single investment platform for all the funds because it helps to keep these costs and risks to a minimum. There is also a risk of a loss (or gain) while your savings are "out of the market" during the time it takes for the money to pass from fund to fund.

How the scheme is administered

The Scheme administrator is responsible for maintaining records and ensuring that your account is invested according to your wishes. The Trustee has hired a specialist company, Equiniti, as the administrator for your AVC/DC savings.

You should contact the administrator if you want to:

- Make changes to how your account is invested
- Change your expected retirement date (if you're invested in the lifestyle strategy)
- Know the value of your savings
- Transfer these funds (along with your other benefits) to another pension arrangement
- Have any questions about the Scheme.

The Thales UK Pension Scheme Administration Team at Equiniti can be contacted using the following details:

Thales Pensions Team, Equiniti, Sutherland House, Russell Way, Crawley, West Sussex RH10 1UH

Phone: +44 203 890 2128

Email: thales@equiniti.com

You can also find more information about your investment choices, along with a 'Question and Answer' document, via the Scheme's website, Member Web, at http://thales.xpmemberservices.com/member-info/avc-dc-fund-information or directly via Scottish Widows' dedicated website; www.scottishwidows.co.uk/save/thales.

Whilst the Trustee and Aviva can provide you with information about the current investment options available, they cannot offer you advice that is specific to your circumstances. Your choice of investment options will be based on a number of personal factors, including your attitude to taking risk and the length of time until your retirement.

Past performance is not a guarantee of future performance and the value of investments, including your investments in the Fund, can go down as well as up. If you need advice based on your personal circumstances, you should speak to a Professional Financial Adviser. You can find a regulated financial adviser in your area by visiting: www.fca.org.uk/consumers/finding-adviser .

Trustee of the Thales UK Pension Scheme

March 2024

APPENDIX

Types of investments used within the investment funds: equities, bonds/gilts, cash, diversified growth, and multi-asset

The funds available through the AVC/DC arrangements are combinations of equities, bonds/gilts, cash, diversified growth funds or multi-asset funds. This section gives you some guidance to help you understand the characteristics of each type when used in the context of pension saving.

Equities

Generally, equity funds:

- are made up of shares in companies traded on stock markets in the UK or overseas;
- are affected by rises and falls in their markets – their value can go down or up;
- have the potential to experience the highest short-term changes in value (either up or down) when compared with diversified growth funds, bonds/gilts or cash;
- offer the potential for higher long-term returns than bonds/gilts or cash; and
- are normally suitable for members who are not planning to retire for several years (say five to ten years) and so do not need to use their pension savings for several years.

Equity funds are expected to have the highest short-term volatility but may also offer the potential to produce the highest future investment returns over the long-term.

Bonds/gilts

Generally, bond/gilt funds:

- are a loan to a company (or the Government in the case of gilts) for a fixed period;
- pay interest on the amount borrowed and repay the capital (i.e. the amount borrowed) at the end of the fixed period;
- pay interest at a fixed rate (fixed interest) or a rate linked to inflation (index-linked);
- rise and fall in value over their lifetime but returns are not expected to be as volatile as returns on equities or diversified growth funds; and
- are more suitable for those nearing retirement who will soon need to buy a pension. The price of pensions which do not increase in payment or increase by a fixed amount each year (say 3% each year) is linked to the price of fixed interest gilts. The price of inflation-protected pensions is linked to the price of index-linked gilts.

Gilt and bond funds are expected to produce a lower investment return over the long-term than equities or diversified growth funds, but are also expected to have lower volatility of investment returns than equities or diversified growth funds.

Cash

Generally, cash funds:

- are expected to provide lower returns over the long-term than equities, diversified growth funds or bonds/gilts;
- offer some protection against capital risk (i.e. the risk that your AVC/DC account may fall in value), although inflation may reduce the real value of the investment;
- help protect the value of any tax-free cash sum amount you plan to take on retirement; and
- are generally thought to be most suitable for members only a few years away from retirement.

Cash funds are expected to provide a lower investment return in the long-term than either gilts, diversified growth funds or equity funds but with much lower volatility.

Diversified growth funds

Generally, diversified growth funds:

- are invested in a mixture of UK and overseas equities and other assets such as bonds, cash, currencies, commodities, derivatives and property;
- are affected by the rise and fall in equity values but because they also contain other assets, they are likely to be less volatile than pure equity funds; and
- are expected to provide higher returns over the long-term than bond/gilt funds and cash, but may not produce as high returns as pure equity funds;
- are not normally suitable for members approaching retirement.

Diversified growth funds are expected to have some short-term volatility but be more stable than pure equity funds, while also offering the potential to produce the future investment returns over the long-term that are higher than bonds/gilts or cash.

Options at retirement age;

Bonds/gilts and buying a pension

When an insurance company converts your account into a pension, it tends to invest in a mixture of bonds and gilts. The amount of pension available at any given time is therefore linked to changes in the prices of bonds and gilts. In this way, investing in a bond/gilt fund can provide a greater degree of certainty about the pension that your AVC/DC account will provide, since insurers' prices will tend to move in the same direction as changes in the value of bonds and gilts in your AVC/DC account. Of course, the cost of converting your account into a pension also depends upon the insurer's views on future life expectancy.

Targeting a cash lump sum

In the same way as described above for targeting buying a pension, a cash fund can give a higher degree of certainty as to the amount of tax-free cash that can be secured as you approach retirement.

Transferring your pension into an income drawdown policy

Income drawdown allows you to take income from your pension fund while the fund remains invested and continues to benefit from any investment growth. However, if you wish to move into an income drawdown policy you will need to transfer your fund from the Scheme into an income drawdown policy.