

The Babcock International Group Pension Scheme

Annual Implementation Statement (“the Statement”) for the Scheme year ended 31 March 2025

Section 1 - Introduction

1.1 Introduction and purpose of this Statement

This document is the Annual Implementation Statement (“the Statement”) prepared by the Trustee of the Babcock International Group Pension Scheme (“the Scheme”) covering the scheme year to 31 March 2025. The purpose of this Statement is to:

- detail any reviews of the Statement of Investment Principles (“SIP”) the Trustee has undertaken, and any changes made to the SIP over the year as a result of the review
- set out the extent to which, in the opinion of the Trustee, the Scheme’s SIP required under section 35 of the Pensions Act 1995 has been followed during the year
- describe the voting behaviour by, or on behalf of, the Trustee over the year

Historically, the Scheme has been divided into two sections: the Defined Contribution (“DC”) Section and the Defined Benefit (“DB”) Section. However, following completion of a formal consultation process, the DC Section of the Scheme was closed to future contributions with effect from 30 September 2024. All DC assets (with the exception of a small number of members who were having benefits settled) were then transitioned to the BIG Master Trust, a section of the Aon Master Trust, in Q1 2025. Therefore, the Trustee has not included the full DC content in this Statement which they have in previous years as all DC assets were transferred out before the end of the Scheme year. An update on the investment strategy and investment performance monitoring to the point of transition is provided in Section 2.

This Statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the statutory guidance on reporting on stewardship in the implementation statement dated 17 June 2022.

A copy of this Statement will be made available on the following website:
https://pensions.babcockinternational.com/key_information

1.2 Review of the SIP and changes made during the Scheme year

During the year to 31 March 2025, the Trustee reviewed the SIP, taking formal advice from its investment advisers, to reflect changes in the Scheme’s investment strategy.

The latest available version of the SIP is dated September 2024¹. .

1.3 Adherence to the SIP

¹ The latest available version of the SIP can be found at: https://pensions.babcockinternational.com/key_information

The Trustee believes the content of the SIP has been followed during the 2024/25 Scheme year and the justification for this is set out in the remainder of this section.

Section 2 - DC Section

Following completion of a formal consultation process, the DC Section of the Scheme was closed to future contributions with effect from 30 September 2024. All DC assets (with the exception of a small number of members who were having benefits settled) were then transitioned to the BIG Master Trust, a section of the Aon Master Trust, in Q1 2025. An update on the investment strategy and investment performance monitoring to the point of transition is provided below:

2.1 Investment Strategy Review

The last triennial strategy review took place in March 2022 and subsequent work was completed in October 2022, with the support of WTW. Following these reviews and subsequent consideration, on the recommendation of the DC Committee, the Trustee agreed that no changes would be made to the DC investment options. A further high-level review was carried out during March 2024 and again it was agreed that no changes should be made to the DC investment options. The Trustee continued to monitor the investment strategy, including its consistency with the aims and objectives of the default as stated in the SIP, through to the point of full transition to the Master Trust.

2.2 Investment Performance Monitoring

Performance of all DC Section funds continued to be monitored on a quarterly basis until the transition date, with reports presented and discussed at each quarterly DC Committee meeting. During the period to transition, the majority of funds performed in line with their benchmarks, with the DC Committee determining that any deviations from these benchmarks were acceptable.

2.3 Voting Policies and activities

No information on voting policies and activities have been included in this Statement as there were no assets remaining in the DC Section at the end of the Scheme year.

Section 3 - DB Section

3.1 Investment Objectives

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set.

The primary objectives of the DB Section included in the SIP are:

- To ensure that the Scheme's benefit obligations can be met.
- That, overall, there is a high level of security of benefits.

In addition, the Trustee recognises that a "least risk" approach to investment strategy would substantially increase the cost of the Scheme (possibly to unacceptable levels). The Trustee has thus decided to pursue a strategy which takes on some investment risk in a controlled fashion and which is consistent with the Trustee's assessment of the financial strength of the Sponsoring Company. This leads to further specific objectives, including:

- To aim for a long-term return which, if achieved, should improve and then maintain the Scheme's funding level.
- To adopt a strategy which aims to limit the level of investment risk, and the resulting funding level, deficit and contribution volatilities, to an acceptable level.

During the period the Trustee is satisfied that the objectives have been met.

3.2. Assessment of how the policies in the SIP have been followed for the Scheme year

The information provided in the following section highlights the work undertaken by the Trustee during the Scheme year and sets out how this work followed the Trustee's policies in the SIP.

In summary, it is the Trustee's view that the policies in the SIP for the DB Section have been followed during the Scheme year.

3.2.1 Asset Allocation

The assets of the Scheme were broadly invested as follows:

Asset Class	Asset Allocation	
	Start of Year (%)	End of Year (%)
Global Equity	6.5	7.8
Total Multi-Asset Credit	7.0	10.8
Property	2.9	2.4
Total Low Risk and Income and Matching Portfolios	83.7	79.0
Total	100.0	100.0

Source Investment Managers and Mercer. Figures subject to rounding. Figures exclude cash balances held in Northern Trust cash custody account and Trustee Bank Account balance.

Policy	How the policy has been met over the Scheme year
<p>1</p> <p>Kind of investments to be held and the balance between different kinds of investments</p> <p>(Section 3.3 of SIP)</p>	<p>The Trustee continued to review its investment strategy throughout the Scheme year. After taking professional advice, main changes made to the Scheme's investments during the period are outlined below.</p> <ul style="list-style-type: none"> • Aviva HLV Property mandate secondary market sale • Top up of the CQS and Oak Hill Multi-Asset Credit mandates • Top up of the LGIM and Insight Buy & Maintain Credit mandates • Top up the Insight LDI portfolio (using part of Aviva sale proceeds and the Company contribution),. • Increase of the Insight LDI hedge target from 95% to 100% of assets on the self-sufficiency basis.
<p>2</p> <p>Risks, including the ways in which risks are to be measured and managed</p> <p>(Section 3.2 of SIP)</p>	<p>As part of its regular quarterly investment performance monitoring, the Trustee monitored changes in the Scheme's exposure to various risks, including active management and manager-related risks.</p> <p>The Trustee manages interest rate and inflation risk by investing in LDI assets. The Trustee keeps collateral risk under review as part of quarterly monitoring.</p> <p>The Trustee also considers liquidity risk and monitors the liquidity of the Scheme's investments on a quarterly basis.</p> <p>As part of the implementation of the strategy changes mentioned above, the Trustee considered the impact on risk.</p>
<p>3</p> <p>Expected return on investments</p> <p>(Sections 3.3. and 3.4 of SIP)</p>	<p>The Trustee reviewed the expected return on investments in connection with the changes in the investment strategy that occurred during the Scheme year, and to allow for changes in market conditions.</p> <p>As part of the quarterly investment performance reports, the Trustee monitored actual performance for each investment manager, relative to their respective benchmarks, and monitored managers' ability to meet their return targets via Mercer's manager ratings. There were some changes to the investment manager ratings over the Scheme year. These have been considered by the Trustee.</p> <p>The Trustee also reviewed the return on the "growth", "low risk and income", "matching" and total portfolios relative to the relevant strategic targets on a quarterly basis.</p>

3.2.2 Investment Mandates

Policy	How the policy has been met over the Scheme year
<p>4</p> <p>Securing compliance with the legal requirements about choosing investments</p> <p>(Section 1 of SIP)</p>	<p>The Scheme's investment adviser provided updates on Scheme performance and, where required, appropriateness of the funds used, as well as advice on asset allocation and investment risks, during the Trustee and Investment Committee ("IC") meetings and via the quarterly investment performance reports.</p> <p>Most notably, the Trustee received advice in relation to the aforementioned investment strategy updates that occurred over the Scheme year.</p>
<p>5</p> <p>Realisation of investments</p> <p>(Section 7 of SIP)</p>	<p>The Trustee made disinvestments where required during the year to meet cashflow requirements, in line with the agreed cashflow policy.</p>
<p>6</p> <p>Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments</p> <p>(Sections 3.1 and 8 of SIP)</p>	<p>The investment performance reports were reviewed by the Trustee on a quarterly basis, which include Mercer's research ratings, which include consideration of Environmental, Social and Governance ("ESG") matters, for each fund. The Trustee (via the IC) liaised with the investment managers, as part of the regular manager monitoring. The Trustee continues to closely monitor ratings and any significant developments for the managers.</p> <p>Managers are expected to provide a summary of their ESG and stewardship policies as part of any meeting with the IC, as well as to confirm how they comply with the Trustee's ESG policy.</p> <p>The Trustee also receives details of any relevant voting and engagement activity from the Scheme's investment managers on an annual basis.</p> <p>Member views are not taken into account in the selection, retention and realisation of investments.</p>

3.2.3 Monitoring the Investment Managers

	Policy	How the policy has been met over the Scheme year
7	<p>Incentivising investment managers to align their investment strategies and decisions with the Trustee's policies</p> <p>(Section 9 of SIP)</p>	<p>The Trustee used the information set out in the quarterly investment performance reports, including manager performance and Mercer's investment ratings, to review their manager appointments over the Scheme year. The Trustee (via the IC) also met with investment managers (M&G, Cambridge Associates, Insight, LGIM) over the Scheme year to receive updates on the portfolio management team and to review the characteristics of the funds relative to the Scheme's objectives.</p> <p>Over the year, the Trustee oversaw the secondary market sale of the Aviva mandate as referred to in Section 1 of this table.</p>
8	<p>How the arrangement incentivises the investment manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term</p> <p>(Section 9 of SIP)</p>	<p>The Trustee assessed each manager's performance over the long term (3 years, or since inception if longer) during the year. Longer term performance has been given more focus than short term performance in line with the Trustee's policy.</p> <p>Over the year, the Trustee also monitored how each investment manager chooses assets for investment and embeds ESG and climate change considerations into their investment process via changes in the investment and ESG ratings assigned by Mercer and through meetings with managers.</p> <p>The Trustee has also received and considered key voting information from the managers, which is summarised in the Voting section that follows.</p> <p>The Trustee remains satisfied that managers are choosing investments based on their medium to long-term financial and non-financial performance and are increasingly engaging with issuers of debt and / or equity on factors that will affect the issuer's long-term performance, such as ESG considerations.</p>
9	<p>Evaluation of the investment manager's performance and the remuneration for asset management services</p> <p>(Section 9 of SIP)</p>	<p>The Trustee received, and considered, performance reports produced on a quarterly basis, which presented performance information and commented on the funds they invest in over various time periods. The Trustee reviewed absolute performance and relative performance against a suitable index used as a benchmark and / or against the managers' stated target performance on a net of fees basis.</p>
10	<p>Monitoring portfolio turnover costs</p> <p>(Section 9 of SIP)</p>	<p>The Trustee received, where applicable, MiFID II reporting from the investment managers. The Trustee assessed investment performance net of the impact of costs and fees.</p>

		The Trustee continues to monitor industry improvements concerning the reporting of portfolio turnover costs.
11	The duration of the arrangement with the investment manager (Section 9 of SIP)	Over the year, the Trustee oversaw the secondary market sale of the Aviva mandate as referred to in Section 1 of this table.

3.2.3 ESG, Stewardship and Climate Change

	Policy	How the policy has been met over the Scheme year
12	Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee would monitor and engage with relevant persons about relevant matters) (Section 8 of SIP)	<p>Details of the Scheme's investment managers' status regarding the UK Stewardship Code are provided in this statement.</p> <p>As outlined above, the Trustee monitored the ratings assigned to each manager by Mercer, and communicated its ESG policy to those managers presenting to the IC.</p>

3.2.4 Voting Disclosure

	Policy	How the policy has been met over the Scheme year
13	The exercise of the rights (including voting rights) attaching to the investments (Section 8 of SIP)	The Trustee has requested key voting activities from the managers over the Scheme year. The information received is summarised in the appendix to this statement.

3.3 Engagement Activity

3.3.1 Stewardship

The Trustee has given its investment managers discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to the Scheme's investments in accordance with their own corporate governance policies, and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

All of the Scheme's managers with the exception of H2O are signatories of the current UK Stewardship Code 2020 (the "Code"). H2O does not consider the Code to be relevant to the assets and asset classes they manage and therefore are not signatories of the Code.

3.3.2 Voting Activity

The Trustee has delegated its voting rights to the investment managers, principally through being invested in pooled funds (noting that in this case votes are cast on behalf of the pooled fund not the Trustee, which does not own underlying assets directly). As a result, the Trustee does not use the direct services of a proxy voter, although the investment managers may employ the services of proxy voters in exercising their voting rights on behalf of the Trustee.

Investment managers are expected to provide voting summary reporting on a regular basis, at least annually, and details of the voting activity of relevant managers, including significant votes, for the DB section are set out in Appendix A.

Over the period of this report, Insight managed the Scheme's dedicated equity market exposure. For reasons of efficiency and cost effectiveness this was achieved via the use of commercial investment contracts as opposed to actually investing and holding shares. As a result of this, the Scheme achieved exposure to capital gains and dividends but was not entitled to vote on management resolutions.

3.3.3 Significant Votes

The Trustee defines a significant vote as one that is linked to the Scheme's stewardship priorities/themes. The Trustee has decided to report on votes related to material holdings (more than c.5% of the relevant fund's holdings) in the following stewardship areas:

- **Environmental (E) – Climate change**
- **Social (S) - Human rights** (including modern slavery)
- **Governance (G) – Executive remuneration** (any vote against a remuneration report where executives are awarded bonuses despite missing targets)
- **Governance (G) – Diversity** (any vote against chair when the board is not sufficiently diverse)
- **Governance (G) – Financial outcomes** (any vote which has the potential to substantially impact financial or stewardship outcomes (e.g. through over-leveraging the business or through implementing proposals that would weaken the corporate governance))

As part of this monitoring, the Trustee will engage with the Scheme's investment managers where appropriate to understand the activity undertaken in relation to these topics.

Appendix A – DB section - Summary of voting over the year to 31 March 2025

Over the last 12 months, key voting activity on behalf of the Trustee was undertaken by Oak Hill and CQS. A summary of their activity is shown below.

Oak Hill – Diversified Credit Strategies Fund

Oak Hill does not utilise a proxy voting service. Given Oak Hill is a manager of below-investment grade credit, their investment activities are predominantly focused on credit and as a result, they typically do not deal with a large volume of proxy votes. Voting activity undertaken over the year to 31 March 2025 is summarised in the table below.

Number of meetings in which the manager was eligible to vote	Number of resolutions in which the manager was eligible to vote	% of resolutions in which the manager voted	% of votes with management / against management / abstained	% of votes contrary to the recommendation of the proxy adviser
7*	43	100.0%	100.0% / 0.0% / 0.0%	n/a

Source: Oak Hill.

**Oak Hill is a below-investment grade credit manager. Oak Hill note that their investment activities are predominantly focused on credit and as a result, they typically do not deal with a large volume of proxy votes. There are instances where Oak Hill may assume equity positions and this is especially true in their distressed business. Oak Hill may acquire equity in order to assert greater influence over a company or they may receive equity as part of a restructuring process. Other instances in which they occasionally are "shareholders" pertain to their ownership of closed-end funds where the underlying holdings are usually credit-related.*

Oak Hill have confirmed that there were no votes that met the Trustee's definition of "significant votes" over the period.

CQS – Multi Asset Credit Fund

CQS utilises a proxy voting service. CQS adopts the view that individual Portfolio Managers and their teams are best placed to make stewardship decisions in relation to assets held by the funds, and determine where they believe it is significant. Voting activity undertaken over the year to 31 March 2025 is summarised in the table below.

Number of meetings in which the manager was eligible to vote	Number of resolutions in which the manager was eligible to vote	% of resolutions in which the manager voted	% of votes with management / against management / abstained	% of votes contrary to the recommendation of the proxy adviser
n/a	31	100.0%	100.0% / 0.0% / 0.0%	n/a

Source: CQS. CQS generally does not use a proxy voting advisor.

CQS have confirmed that there were no votes that met the Trustee's definition of "significant votes" over the period.

The nature of the other mandates means no relevant voting information has been provided, for example due to having no direct listed equity exposure or due to the credit nature of the holdings.

Appendix B – DB section – Engagement examples over the year to 31 March 2025

Examples of the engagement activity undertaken by the investment managers are set out below.

Insight (Buy & Maintain credit)

TotalEnergies SE

Date engagement occurred: Q3 2024

Action

The engagement with the energy company was part of a climate program to align its net zero targets with the Paris Agreement. The issuer was questioned about its net zero targets, carbon offset strategy, and oil and gas financing. It believes its targets align with a net zero future and is discussing methodology changes with TPI. Investments in renewables have reached one-third of its CAPEX. The issuer does not buy carbon credits but has an in-house team for offsetting projects and is experimenting with carbon capture technology.

Outcome/Next Steps

The issuer is seen as a leader in renewables and remains committed to its decarbonization plan. The company was encouraged to contact TPI for an updated assessment, considering updated GHG emissions measurements. New oil and gas projects must decrease carbon intensity before approval. Continuous engagement will focus on ensuring alignment with net zero targets and monitoring progress in renewable investments and carbon offset strategies.

Cambridge Associates (Private Debt)

Ares Capital Europe V

Date engagement occurred: Ongoing

Action

Ares is actively engaging with their portfolio companies to enhance their ESG profiles. They have developed mechanisms for large-scale engagement, including establishing benchmarks and creating company-specific dashboards based on 2022 data. Ares hosted an inaugural ESG Roundtable in November 2023, involving 25 companies from their European Direct Lending program. They have also implemented various engagement activities, such as distributing dashboards, conducting a Corporate Sustainability Reporting Directive workshop, and piloting a cyber diagnostic and action planning program.

Outcome/Next Steps

Ares plan to continue their ESG engagement efforts by launching a Climate Playbook and conducting climate-focused engagement activities. They are preparing for another iteration of their ESG Roundtable. As of June 30, 2024, Ares have structured approximately €9.9 billion in loans, with around €6.0 billion being sustainability-linked. They emphasise collaboration with companies to develop sustainability targets, integrating verification and two-way ratchets. These initiatives aim to strengthen Ares' commitment to sustainability and enhance the ESG profiles of their portfolio companies.

CQS (Multi-Asset Credit)

Large trading and workflow automation software company

Date engagement occurred: Q3 2024

Action

CQS holds exposure across three company entities, with no material concerns from a credit perspective. However, the CFO acknowledged the need for improved transparency following a negative article about additional debt and investor pushback. The Board agreed to increase disclosure, including

details on board composition, governance, and funding sources. The company was also encouraged to share more on climate change positions and net zero targets.

Outcome/Next Steps

The company plans to enhance governance communication and clarified that the "debt" is preferred equity/deeply subordinated. The Board includes 4 out of 8 independent directors. While there are no immediate climate targets, the company assured that it will focus on this in the future. Continuous engagement is planned to ensure climate targets are set.