

This **Implementation Statement** has been prepared by the Trustee of the **BAE Systems Pension Scheme** (the Scheme) and it covers the year to **31 March 2023**.

The Implementation Statement sets out how the Trustee has followed and acted on the principles outlined in the Scheme's Statement of Investment Principles (SIP), with a focus on stewardship activities, implementation of the main investment principles and Environmental, Social and Governance (ESG) factors.

The Implementation Statement focuses on

- The role of the Trustee
- The changes that have been made to the Scheme's SIPs
- How, and the extent to which, the policies contained in the SIPs have been followed during the Scheme year
- The stewardship of the Scheme's investments, including the most significant voting decisions made by, or on behalf of, the Trustee.

The Scheme has two segregated sections, the BAE Systems Section and the Airbus Section. The Scheme has a separate SIP in relation to the investment of assets held for the defined benefit liabilities for each of the BAE Systems Section and the Airbus Section (referred to in this Statement as the DB SIPs). The Scheme also has a separate SIP in relation to the investment of assets held in relation to defined contribution benefits provided by the Scheme, referred to in this statement as the DC SIP.

For statutory purposes, the three SIPs together constitute the Scheme's Statement of Investment Principles.

Introduction - The role of the Trustee

The role of the Trustee is to ensure that the Defined Benefit (DB) Sections and Defined Contribution (DC) Section (collectively known as the Scheme) are well run in accordance with the Scheme's Rules, relevant legislation and regulation in the best interest of the members of the Scheme within the constraints of relevant rules, laws, and regulations. The Employer nominated Trustee Directors are directly selected and appointed by the Employers and the Member nominated Trustee Directors are selected by the Consultative Committee, having first been nominated by the Scheme's active and pensioner membership. The Trustee Directors have relevant skills and experience ranging across pensions, finance, law and audit, amongst other disciplines. One is a professional independent Trustee who has extensive wider pension industry expertise and knowledge.

The Board meets on a formal basis each quarter to discuss the management of the Scheme, also meeting on an ad-hoc basis when necessary. Meetings are held in person or by video, as appropriate, with members sometimes joining by phone if necessary.

All members of the Trustee Board (with the exception of the Chairman who is invited to all sub-committee meetings) sit on one or more sub-committees so that particular focus can be given to such matters as audit and governance, funding and investment, defined contribution matters, responsible investment, and administration and communications.

The Board recognise the vital importance of good governance and great emphasis is placed on the expertise and skills that are required to ensure the effective oversight of the Scheme. On appointment all members of the Trustee Directors complete the 'Trustee tool kit', developed by the Pensions Regulator and the entire Board is involved in a regime of continual professional development.

What changes have been made to the SIPs and/or strategy over the year to 31 March 2023?

By way of background, the SIPs detail the policies and principles governing how decisions about investments are made. The Scheme operates separate SIPs in relation to the investment of assets held in relation to the defined benefit liabilities in each of the BAE Systems Section and the Airbus Section of the Scheme. During the Scheme year the Scheme also operated a separate SIP in relation to assets held in relation to defined contribution members. This Implementation Statement covers all three SIPs. You will find the different SIPs on the pensions website at:

[Mercer OneView](#)

DB Section SIPs

In March 2023, the BAE Systems Section SIP was reviewed and updated to reflect the change in strategy which occurred during the Scheme year, from a maturity driven approach to a cashflow matching approach. The components of the new investment strategy are:

- A Current Pensioner Portfolio (CPP) which is a portfolio of cashflow generative assets (such as gilts and corporate bonds) to meet benefit payments for existing pensioners.
- An "Excess" CPP which includes additional cash flow generative assets to meet future pensioner liabilities. It also includes derivatives to hedge a portion of the pricing risk associated with the purchase of additional CPP assets in future.
- A Future Pensioner Portfolio (FPP) which is a portfolio of growth assets to generate excess return, which over time will be sold and replaced with CPP assets.

The risk section (Section 5 of the BAE Systems Section SIP) was updated as a result to ensure the risks were specific to the new strategy and updated components, as described above.

Finally, "Section 6 - Socially Responsible Investment and Corporate Governance" was also updated to reflect the Trustee's updated Responsible Investment policies to expand the "Stewardship, Voting, and Engagement", "Monitoring", and "Climate Scenario Analysis and Climate Metrics" policies.

The Airbus Section SIP was not updated during the Scheme year but was updated in May 2023, noting that the previous review was in September 2020. This will be reflected in the Implementation Statement for the Scheme year ending 31st March 2024. However, the Section's hedging strategy was updated in December 2022. The Airbus Section uses an Asset-Led Discount Rate (ALDR) approach and was previously at Phase 2 of this approach, with the final Phase 5 expected to be reached by 2042. However, due to the funding position of the Section improving over the Scheme year and attractive yields for hedging assets, an opportunity to de-risk the investment strategy was taken. More specifically, the Section changed its hedging basis to "Phase 5" liabilities and set a hedge ratio target of 75% on this basis.

Additionally, in October 2022, a large portion of both DB Sections' listed equities were sold to take advantage of market conditions. The proceeds of which were invested in lower-risk, matching assets to reduce the investment risk of the Sections.

DC Section SIP

There were no changes to the DC Section SIP over the Scheme year, nor were there any changes to the Trustee's investment policies and principles over the Scheme year. The last review of the DC SIP was in September 2020.

In September 2022 the DC assets of the BAE Systems Pension Scheme were significantly reduced, as the DC Retirement Plan assets were transferred to the BAE Systems Retirement Savings Plan which is a section of the Mercer Master Trust. Following the end of the reporting period (in July 2023), most of the remaining DC assets (in the Level 100+ and AVC Sections) have also been transferred to the BAE Systems Additional Retirement Savings Plan within the Mercer Master Trust.

Review of the Scheme's SIPs

To help ensure that the Schemes meet with their respective SIP policies on risk, a risk review is undertaken annually. The annual DB Section risk review occurred in Q2 2022 with all of the risks overseen by the Funding and Investment Committee (FIC) reviewed to identify whether the controls in place were sufficient and if the risk control scoring needed to be changed. The DB Section risk review was also reviewed by the Responsible Investment Committee (RIC).

The DC Section risk review was overseen by the DC Committee (DCC) and took place on 23rd February 2023.

What is the Trustee's investment policy for the Defined Benefit (DB) Sections of the Scheme?DB SIP policies on governance

As part of the governance framework, the Trustee has appointed legal advisors, a covenant assessor, strategic investment advisors, and a Scheme Actuary. The strategic investment advisors attend and advise at the FIC and RIC meetings. Their roles include challenging BAE Systems Pension Fund Investment Management ("BAPFIM"), making recommendations to the Trustee on the Scheme's investment strategy and participating in the review process to ensure the Sections meet with the Trustee's principles and policies as contained in the SIPs.

The Trustee has set up and delegated certain investment powers to the FIC. The FIC's role includes making recommendations (having considered advice) to the Trustee on the DB Sections' investment strategies, and managing, monitoring and implementing the DB Sections' investment arrangements.

The Trustee has also set up the RIC. The RIC's role is to make recommendations to the Trustee Board and to the FIC to help the Trustee appropriately approach Responsible Investment and environmental, social and governance (ESG) matters, including those relating to the Taskforce on Climate-Related Financial Disclosures (TCFD).

The Scheme has an in-house investment manager, BAPFIM, which is the Scheme's principal investment manager. The FIC, RIC and BAPFIM are all involved in the review process to ensure the Trustee's investments meet with the principles and policies as contained in the SIPs.

The Trustee has appointed Redington Ltd as the Scheme's strategic investment advisor. Redington is an independent investment advisor, providing a full range of outcome-oriented advice on portfolio construction, risk management and Responsible Investing. Its role is to provide the Trustee, FIC and the RIC with strategic investment advice, helping the Trustee to meet its investment objectives, including the integration of responsible investment into the investment process where desired and appropriate. Redington are also aiding the RIC and Trustee in creating their TCFD report.

The Trustee has delegated day to day investment of the Scheme's assets to BAPFIM. BAPFIM acts as the principal investment manager for the Scheme. The Trustee of the Scheme determines the objectives and an Investment Strategy for the operation of the Scheme with Redington's advice. These are set out

in the Scheme's DB SIP, and provide guidance for BAPFIM in its investment management of the assets of the Scheme.

DB SIP policies on objectives and strategy

The Trustee has a clear plan to ensure that the Scheme can deliver on the DB promise to pay all member benefits on time and in full. This includes a current allocation to growth assets. As the Scheme's investments mature, the Trustee will switch further equity investments into less volatile assets that generate a steady income.

The Scheme ensures there is sufficient cash available to meet immediate cash requirements, including the payment of pensions. In doing this, the Scheme seeks to avoid the need to sell any assets at an inopportune time. For example, holding sufficient collateral to avoid becoming a forced seller of return seeking assets during particularly volatile periods of interest rate volatility, as seen over 2022 and 2023.

DB SIP policies on risk

Risk is an important factor that is considered carefully. Investment risks are reduced by investing in a diversified set of assets which perform differently in different economic environments. As these investments are driven by different factors, they do not always move in the same direction as each other so when some investments are going down in price, the Scheme generally holds other investments that are going up in price. The aim is for a smoother and more predictable investment return profile, which is ideal to make sure pension commitments are met year after year.

The Trustee also has to take into account the strength of the underlying sponsors and as part of the regular triennial valuation, the Trustee reviewed the BAE Systems covenant during the year. The last full review of the Airbus Section sponsor took place in 2023 as part of the valuation as at 31 March 2023. In the interim period between full reviews, the Trustee continues to have regular updates on the underlying sponsoring employer's performance.

DB SIP policies on Socially Responsible Investment and Corporate Governance

The Trustee is aware of the environmental changes that are occurring and it is up to the Trustee as a long term investor to make sure the Scheme takes into account the associated risks and opportunities that these changes may have for the investments.

It is not just the environment the Trustee is concerned about, but also social factors and the governance of the companies the Scheme invests in. The Trustee ensures that they are aware of the objectives and policies and hold them to account via the Scheme's principal investment manager BAPFIM if they do not follow them. The Trustee has delegated to BAPFIM, Hermes EOS (the Scheme's specialist stewardship service provider and principal proxy voting advisor) and other investment managers the exercise of rights (including voting rights) and engagement activities in respect of the Scheme's DB investments. As part of this, the Trustee expects BAPFIM to have regard to the voting and engagement policies in the Scheme's Responsible Investment Policy and DB SIPs. This also applies where BAPFIM is selecting, appointing and monitoring external managers on the Trustee's behalf. The Trustee also expects BAPFIM and any external fund managers to take account of Responsible Investment and ESG, including climate-related risks, as financially material considerations. The Trustee has employed Hermes EOS as the Scheme's specialist stewardship service provider to help ensure that voting and active engagement are delivered with professionalism and due care across the Scheme's assets. Additionally, Redington's appointment as the Scheme's investment advisor allows the Scheme's policies on Responsible Investment to be kept under review to highlight areas for amendment or improvement.

As noted above the RIC's role is to oversee the work around ESG and stewardship activities which will also help achieve the aim to meet a net zero target by no later than 2050 including the setting of milestones and metrics as part of that journey.

The Trustee sees engagement as a vital tool for achieving this reduction. Through its investment manager, BAPFIM, and its outsourced stewardship provider, Hermes EOS, the Trustee will therefore engage with companies to ensure that they are taking the necessary steps to reduce their exposure.

Evidence of the DB Sections investment principles being met over the Scheme year to 31 March 2023:

Please note, unless otherwise specified, the evidence applies to both Sections.

Policy	Has the policy been followed?	Evidence
Governance		
An actuarial valuation of each Section is performed at least every three years, in accordance with statutory requirements.	Yes, the Trustee is satisfied that this policy has been followed.	BAE Systems Section: The last actuarial valuation took place as at 31 March 2021, the next valuation is scheduled to take place as at 31 March 2024. Airbus Section: The last actuarial valuation took place as at March 2020, the next valuation is currently taking place as at 31 March 2023.
Objectives		
The objective of the Sections is to hold sufficient and appropriate assets to meet the Scheme's liabilities as and when they fall due.	Yes, the Trustee is satisfied that this policy has been followed.	BAE Systems Section: The Trustee has adopted a cashflow driven approach to investments to maximise the probability that pension payments will be met in full and on time. Airbus Section: The Trustee has adopted a maturity driven approach, aiming to achieve a return on the assets which, taken in conjunction with contributions, is sufficient over time to meet the Section's liabilities.
The Trustee uses Asset Liability Modelling ("ALM") and considers expected returns to assist in setting investment policy.		ALM has continued to be used to deliver any investment advice, and to aid the decision-making of the Trustee. The Trustee undertook an inflation and interest rate hedging review for the Airbus Section and restructured the hedging strategy of the BAE Systems Section in the transition to a cashflow matching strategy. ALM was and continues to be used throughout any such review.
Strategy		
The Trustee agreed a cashflow matching framework to match the BAE System Section's liability cashflows, and a maturity driven approach to manage the Airbus Section's investments.		The Trustee continues to be ahead of each Section's respective targets. Funding and investment progress for both Sections is monitored by the Trustee through a quarterly Key Performance Indicator (KPI) report.
BAE Systems Section only: The flow of assets from FPP to CPP over time, as members retire is vital to the strategy's success.	Yes, the Trustee is satisfied that this policy has been followed.	Through the quarterly reporting, the Trustee monitors the quantum and target asset class breakdowns for CPP purchases, return targets for each underlying asset class, and hedging the interest rate and inflation risk associated with future CPP purchases. All of these metrics remained within the agreed ranges.
BAE Systems Section: The Trustee's principle is that, where practicable, there will be sufficient investments in liquid or readily realisable assets to meet cash flow		The Trustee, together with BAPFIM and the Scheme administrators, have a cash flow management policy in place and will also hold a balance of cash to help meet unanticipated benefit and other payment obligations.

requirements in foreseeable circumstances. Airbus Section: To invest the assets so that taking capital, income and contributions together the Section's assets are sufficient to meet its liabilities and statutory funding obligations.		Additionally, the sale of a large portion of the BAE Systems Section equities has allowed the proceeds to be invested in lower-risk assets which serve to improve the liquidity of the Section. The Airbus Section asset performance is in line with expectations and monitored by the Trustee quarterly. Additionally, the decision to transition to a Phase 5 discount basis aided in de-risking the investment strategy.
The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the performance of all strategies.	Yes, the Trustee is satisfied that this policy has been followed	The Trustee receives reporting at each quarterly meeting which details each Section's performance across a range of return and risk metrics. This ensures the Trustee understands the latest position of the Scheme against its objectives and is able to discuss the strategy's appropriateness. This reporting was received at each quarterly meeting.
Risk		
BAE Systems Section: <ul style="list-style-type: none"> The risk that FPP return is lower than that assumed by the Actuary, resulting in insufficient funds to purchase future CPP assets. The risk that the cost of future CPP purchases is higher than assumed by the Actuary, not all cashflows can be matched. The risk that asset cashflows are lower than expected due to issuer defaults. Airbus Section: The Trustee considers the risk that the Scheme assets fail to deliver the returns expected.		BAE Systems Section: The quarterly reporting received by the Trustee includes FPP performance split by asset class compared to their benchmarks to monitor over or under performance. Cashflow projections are also monitored each quarter to note any shortfalls. Airbus Section: The Trustee has set risk tolerances around the strategic asset allocation to provide sufficient flexibility to the investment manager(s). The Trustee receives quarterly reporting at each meeting they attend which provides updates on the DB Section's risk metrics.
The Trustee considers the risk that longevity improves and other demographic factor change increasing the costs of the Scheme benefits.	Yes, the Trustee is satisfied that this policy has been followed.	Mortality and other demographic assumptions are kept under review and considered/ revised as appropriate and explicitly at each formal valuation.
The Trustee considers the risk that the Scheme will not have sufficient liquid assets to meet benefit payments as they fall due.		All benefit payments were made on time throughout the Scheme year. The quarterly reporting allows the Trustee to consider the level of transfer value and other benefit activities that may impact cashflow levels. The reporting also includes a liability and asset cashflow projection to ensure any shortfalls are addressed in good time. Additionally, the BAE Systems Section has a minimum level of cash and gilts that must be held. This was met throughout the Scheme year. Collateral levels are also monitored by the Trustee in the regular reporting for both Sections.
The Trustee considers the risk of mismanagement of the Scheme assets either with intent or due to lack of knowledge.		The Trustee uses global custodians for the physical custody of assets and is not the manager of assets. The Trustee also takes professional advice and is considering the appointment of specialist transition managers to help manage any transition risk and is insured against losses resulting from third party errors.
The Trustee considers the risk of the Principal Employer being		The Trustee uses a specialist covenant adviser to carry out regular reviews of the Principal Employer.

unable to make the necessary level of contributions in future.		The Principal Employer reports on its financial results to the Trustee Board twice a year. A full review of the Airbus covenant strength was carried out as part of the 2023 valuation.
The Trustee considers the risk that ESG factors can have a significant effect on the long-term performance of the assets held.		<p>The Trustee expects BAPFIM and any external fund managers to take account of RI and ESG, including climate-related risks, as financially material considerations. Hermes EOS is employed as the Scheme's specialist stewardship service provider to help ensure that voting and active engagement are delivered with professionalism and due care across the Sections' assets. Details of this are included in the Appendix to this statement.</p> <p>The Trustee published its first annual TCFD report during the Scheme year and will publish its second report in October 2023, which aids the Trustee in reviewing how the Scheme is exposed to climate risk and opportunities.</p>

Socially Responsible Investment and Corporate Governance

The Trustee recognises that the consideration of financially material factors, including ESG factors, needs to be assessed in the context of the long-term nature of the DB Sections' investments and is relevant at different stages of the investment process.	Yes, the Trustee is satisfied that this policy has been followed.	The Trustee has begun to incorporate climate-risk and other ESG factors into its processes. The Trustee undertook significant work on climate related risk metrics as part of the production of the TCFD report, published in October 2022.
The Trustee will include and consider climate risk metrics alongside the wider risk-management framework, and decision-making process, of the Sections.		As mentioned, the Trustee has also set short, medium, and long-time horizons over which client risks and opportunities are considered. Scenario analysis has been performed to understand the DB Section's exposure to a range of climate risks. The TCFD report aids discussion around climate related risks and opportunities in the Scheme's funding and investment strategies.
The Trustee believes that alignment of the Sections' and Sponsor's climate change objectives is important. The Trustee will therefore seek to align with the Sponsor's climate change objectives wherever it is deemed appropriate.		The Scheme has set a long-term net zero target, in line with the sponsor objectives.
The Trustee's duty of stewardship is to maximise the benefits accruing to the Scheme's members and the Trustee understands that by actively engaging with financially material factors, which include ESG issues, contributes to identifying both investment opportunities and risks.		
Where possible, the Trustee will use its influence to encourage responsible long-term behaviour through its own activities and its asset managers' compliance with its RI policy and the Stewardship Code principles. The Trustee generally prefers engagement over divestment as a way of instigating change.		Hermes EOS, on behalf of the Trustee, has engaged with the managers of the Scheme's investments over the year, and examples of this are provided in the Appendix to this statement.

The Trustee meets with BAPFIM on a periodic basis. Where considered appropriate, BAPFIM are challenged directly by the Trustee and their advisers on the impact of any significant issues that may affect the prospects for return from the portfolio.		BAPFIM regularly attend and join discussions at FIC, RIC, and Trustee meetings.
Climate scenario analysis will be performed in relation to the Section's assets, liabilities, and covenant by the Trustee's advisors and BAPFIM. This analysis will be performed triennially. The Trustee will consider annually whether a refresh of the analysis is required.	Yes, the Trustee is satisfied that this policy has been followed.	Climate Scenario Analysis was performed for the first TCFD report. The Trustee then agreed to re-run the Scenario Analysis across the DB assets, liabilities, and covenant to better align the scenarios used and to keep in-line with best practice.
The RIC, on behalf of the Trustee, monitors relevant climate metrics (disclosed in the Section's annual TCFD report). The metrics will be calculated in each Scheme year, and the performance against the selected target will be measured and reviewed in each Scheme year.		The Trustee selected a fourth metric during the Scheme year to align with the TCFD requirements. The result of all selected climate metrics were included in the TCFD report.
Arrangements with investment managers		
The targets and objectives for BAPFIM are set to align with the Trustee's investment policies and principles. And the Trustee, utilising detailed quarterly control panels, regularly monitors and reviews the effectiveness of BAPFIM against these objectives.		The Trustee reviews quarterly reporting which details the asset performance over the quarter and longer periods which help the Trustee track BAPFIM's performance.
As the Principal Employer has representation on the board of BAPFIM, it is conceivable that conflicts of interest may arise for example, ESG views may differ between the Trustee and the Principal Employer, or views regarding the appropriate level of investment risk to be taken may differ. Where conflicts are identified, the Trustee considers how these are managed and whether independent advice is required.	Yes, the Trustee is satisfied that this policy has been followed.	One conflict was identified as a Trustee sits on the BAPFIM Board. This conflict has been managed in accordance with the relevant processes.

What is the Trustee's investment policy for the DC Sections of the Scheme?

As part of the Trustee's governance framework, it appointed an investment advisor, Aon, and their role included making recommendations to the Trustee on the Scheme's DC investment strategy. They were also involved in the review process to ensure the Scheme met with the Trustee's principles and policies as contained in the DC Section SIP.

Please note that as of the publication date of this Statement, the majority of the DC assets have been transferred to the Mercer Master Trust. The DC Committee (DCC) has therefore been dissolved as a committee. However, as the DCC was active during the Scheme year 1 April 2022 to 31 March 2023 their involvement in the DC policies has been included in the past tense.

DC SIP policies on governance and implementation

The Trustee set up the DCC. The DCC's role included making recommendations (having considered advice) on the Scheme's DC investment strategy. They were also involved in the review process to ensure the Section met with the Trustee's principles and policies as contained in the DC SIP. Climate change and responsible investment is considered as an integral part of DC investment decisions.

For the DC Sections, the investments were made via a fund platform operated by Standard Life, through to external investment managers who were included on that platform. The Trustee appointed a strategic investment advisor, Aon, who kept the Trustee abreast of everything that happened to beneficiaries' investments. They also brought new propositions to the table for the Trustee to consider, which have previously involved negotiating with Standard Life to include new or additional funds on their fund platform.

DC SIP policies on kinds and balance of investments and default arrangements

DC pension investments are different to DB pension investments and the Trustee is responsible for providing suitable investment options to help beneficiaries' investments mature.

The Trustee selected a range of funds the Trustee believed to be suitable for beneficiaries to invest in. Each DC Section (DCRP, Level 100+ and AVC only) featured a 'default fund' for those members who did not wish to make any investment decisions or seek independent investment advice. The default funds were 'Lifestyle Investment Profiles' which automatically invest on beneficiaries' behalf into a range of equity funds in the initial years and systematically switch into a more diversified mix of bonds, equities, and cash instruments as retirement is approached. The majority of members were invested in the default funds and a significant proportion of the Trustee's DC governance work was therefore spent analysing the performance and make up of these funds. For those members who wish to choose their own investment funds for their retirement savings, there was also a range of other funds the Trustee believed to be suitable to choose from.

DC SIP policies on risk measurement and management

Risk adjusted returns are important factors to consider and this risk is reduced by diversifying, or offering alternative investments (such as private capital, real estate, and infrastructure), that react differently to each other under various economic circumstances. Risk is also managed further, in the default funds, by switching some of the higher return and higher risk investments into safer investments with a lower but more consistent return as retirement is approached (including bonds, equities, and money market instruments). This is because at this stage of a member's life, their pension pot would usually be approaching its peak value, with an imperative to protect the pot from large falls in markets.

Evidence of the DC Section investment principles being met over the Scheme year to 31 March 2023:

Policy	Has the policy been followed?	Evidence
SIP		
The Trustee will review the DC Section SIP at least triennially and immediately following any significant change in investment policy and/ or principle. Prior to adopting the DC Section SIP the Trustee has consulted with the Principal Employer of the Scheme.	Yes, the Trustee is satisfied that this policy has been followed.	No changes to the DC Section SIP were made during the reporting year.
Investment Strategy		

<p>The Trustee's primary objectives were:</p> <ul style="list-style-type: none"> - "asset choice" to ensure DC Section members have an appropriate choice of assets for investment with a range of options suitable for meeting members' investment objectives over their investment time horizons; and - "return objective" to enable DC Section members to benefit from investment in 'growth' assets until they approach retirement, when they will be able to switch into DC Section SIP assets more related to how they plan to take their benefits in retirement. 	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The Scheme offered members a choice of lifestyle strategies, targeting drawdown (Flexible Lifestyle Profile), annuity and cash. The default lifestyle strategy was chosen with the membership profile of each section in mind, with the default strategy for the DC Retirement Plan targeting drawdown and the default strategy of the Level 100+ and AVC Sections targeting cash.</p>
<p>The Trustee also had other investment strategy objectives, namely:</p> <ul style="list-style-type: none"> - to consider a full range of asset classes; - to consider the suitability of the possible styles of investment management and the need for manager diversification; - to consider the suitability of each asset class for DC and AVC arrangements; - to consider the need for appropriate diversification of asset classes; and - to consider the delivery of the investment options in an efficient and cost-effective manner 		<p>The growth and de-risking phases of the default strategies have been designed to deliver an appropriate level of return to meet member objectives, ensure an adequate level of diversification and to de-risk towards an appropriate 'at retirement' asset allocation.</p>
<p>The default investment arrangement had been chosen by the Trustee so as to try and maximise the projected value of DC Section members' at retirement savings, while reducing volatility as members approach retirement.</p>		<p>Additionally, the Scheme offered a wide range of self-select funds including a Responsible Investment Fund and a Shariah fund. These covered the main asset classes and include both active and passive options, allowing members to tailor these investments to meet their requirements.</p>
<p>The Trustee considered the risk of the default option being unsuitable for the requirements of some members.</p>		<p>The last formal investment strategy was carried out in 2020. Given the transfer of members assets to the Mercer Master Trust, the Trustee has not carried out a further detailed review. However, following the Phase 1 transition, the Trustee received high-level advice / comments on the continued appropriateness of the default strategy in November 2022.</p>
<p>The Trustee considered the risk of not meeting the reasonable expectations of DC Section members, bearing in mind members' contributions and fund choices.</p>		<p>This review considered, amongst other things, potential areas for review although concluded that given the likely transaction costs associated with making changes, coupled with the planned timescales for Phase 2 of the transition, that any revised strategy would be in place for too short a time to benefit members materially.</p>
<h3>Manager selection and monitoring</h3>		
<p>The Trustee considered the risk of investment managers not meeting their objectives ("manager risk")</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The Scheme's defined contribution assets were invested via Standard Life's DC platform. The management of the underlying assets, including in relation to ESG factors, was delegated to the underlying fund managers. The Trustee's ability to control stewardship activities is constrained and is therefore effected by choosing underlying investment managers with stewardship policies that are consistent with the Trustee's views.</p>
<p>The Trustee considered the environmental, social and governance risks.</p>		
<p>The Trustee reviewed its direct investments and is to obtain written advice about them at least triennially.</p>		
<p>The Trustee reviewed the appointment with Standard Life periodically.</p>		
<p>The Trustee measured risk in terms of the performance of the assets compared with the benchmarks on a regular basis, typically quarterly, along with monitoring any significant issues with the investment managers</p>		

that may impact their ability to meet the performance targets and objectives set by the Trustee	
The Trustee considered the extent to which ESG (including climate change) factors should be taken into account in the selection, retention and realisation of investments	
In selecting new investment managers for the DC Section, the Trustee considered potential managers' approaches to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making.	
The Trustee monitored the DC Section's investments annually to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies/ principles, including those on non-financial matters.	
The Trustee assessed the performance of the investment managers on a rolling three and five year basis against their specific benchmark and targets.	
The Trustee expected the investment managers to manage the assets delegated to it under the terms of their respective contracts with Standard Life and to give effect to the principles in this statement so far as is reasonably practical.	
It is the Trustee's expectation that voting powers will be exercised by each investment manager with the objective of preserving and enhancing long term shareholder value having regard to ESG factors.	
The Trustee received annual cost transparency reports from the DC Section's platform provider, Standard Life, as part of the annual Chair's Statement preparation process. These reports present information in line with prevailing regulatory requirements for DC arrangements.	
The Trustee expected investment managers to make available regular reports in this area to support the Trustee in assessing whether these are in line with their own objectives.	
The Trustee's investment adviser supported the Trustee in monitoring the level of portfolio turnover of all the investment managers appointed. Having reviewed each fund's costs, the Trustee, with the support of its investment adviser, then considered whether any action is required	
The Trustee considered the risk of fraud, poor advice or acts of negligence ("operational risk").	
Risk Management	
The Trustee maintained a risk register and regularly reviews each of the documented risks, including consideration of the actions in place to mitigate each risk. Due to the complex and interrelated nature of these risks, the Trustee considered these risks in a qualitative and quantitative manner as part of each formal strategy review including consideration of the impact on projected member outcomes.	Yes, the Trustee is satisfied that this policy has been followed.
Member Communication	The Trustee considered risks which may impact members on an ongoing basis, and in greater detail as part of triennial strategy reviews. The last strategy review was carried out during 2020, with a light touch review carried out in November 2022 following the first phase of the transition to the Mercer Master Trust.

Provide suitable information for members so that they can make appropriate investment decisions.	Yes, the Trustee is satisfied that this policy has been followed.	Member communications were designed to ensure members have sufficient information to make appropriate investment decisions. Over the course of the year, detailed communications were prepared for members impacted by the move to the Mercer Master Trust, outlining the approach that would be adopted as to the default and wider fund options available, as well as the approach to transition.
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Taking Advice

The Trustee took some decisions itself and delegated others. When deciding which decisions to take itself and which to delegate, the Trustee had considered whether it has the appropriate training and expert advice in order to take an informed decision.	Yes, the Trustee is satisfied that this policy has been followed.	The Trustee appointed Aon as its investment adviser. Aon provided advice on an ongoing basis, as required by the Trustee. As part of Aon's role, Aon prepared quarterly investment monitoring reports for discussion with the Trustee. Aon would also raise any issues requiring Trustee attention between Trustee meetings via the BAE Pensions team.
Aon was selected as investment adviser to the Trustee. It operates under an agreement to provide a full service designed to ensure that the Trustee is fully briefed both to take decisions itself and to monitor those it delegates.		As an example, during the scheme year Aon provided detailed analysis / advice on whether to maintain the structure of the Multi Asset Fund / Diversified Asset Fund following discussion and questions raised by the Trustee at the regular meetings.

Asset Redemptions

In the event that the Trustee instructs the redemption of units for any reason, such as to replace one or more investment options, the redemption will be undertaken after due consideration of different transition options. This would include consideration of the liquidity, expected transaction costs and associated risk, to ensure that any changes are implemented in the best interests of members.	Yes, the Trustee is satisfied that this policy has been followed.	Over the course of the year, the DC Retirement Plan assets were transferred to the Mercer Master Trust. The Trustee oversaw detailed planning of the transition, including the risk of any 'out of market' exposure and the liquidity of the underlying funds. The transaction costs were met by the Mercer Master Trust.
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Stewardship of investments for the DB Sections of the Scheme

As stated above, the day-to-day management of the Scheme's DB investments is currently carried out by the Trustee's own in-house investment manager, BAPFIM. BAPFIM is owned by BAE Systems plc. BAPFIM also manages external investment manager relationships on behalf of the Trustee. The Trustee, through BAPFIM, assesses the delivery of effective engagement by its fund managers and looks to hold them to account for effective delivery of engagement with assets in which the Trustee, through BAPFIM, invests.

The Trustee also delegates stewardship matters to BAPFIM who utilise the services of Hermes EOS for the stewardship and voting activities for some of the DB assets. Although some external investment managers do also vote on behalf of the Trustee. Where this occurs, the Trustee makes sure that their policies are consistent with the Trustee's own.

Details of the voting and stewardship activity during the year are shown in the appendix.

Stewardship of investments for the DC Sections of the Scheme

The day-to-day management of the DC investments was delegated to external investment managers. As the Trustee invested in pooled funds (pooled funds are funds in a portfolio from many individual investors that are combined together for the purposes of investment), the Trustee's ability to control stewardship activities was constrained and was therefore affected by choosing underlying investment managers with stewardship policies that were consistent with the Trustee's views.

Details on the voting and stewardship activity for the DC section can be found in the appendix.

Further information on the Responsible Investment approach of the DB & DC Sections may be found here:

Responsible Investment

Approach to reporting on stewardship

In June 2022, the Department for Work and Pensions ("DWP") released updated guidance on stewardship reporting which came into effect on 1 October 2022. The updated guidance aims to help trustees deliver the intentions of the original guidance – better stewardship outcomes and reporting. The updated guidance emphasises the need for trustees to take "ownership" of the stewardship process by reporting, assessing and, where appropriate, engaging with the agents carrying out stewardship activities on their behalf.

The Trustee is committed to improving stewardship outcomes and taking into account the updated DWP guidance. As such, it began a review of its stewardship priorities during the Scheme year and commenced the process of producing a formal stewardship policy to include, amongst other items, key stewardship themes selected by the Trustee to focus their engagement efforts. These themes will be communicated to BAPFIM, GSAM, and any external investment managers to ensure the focus of stewardship activities are aligned across the entire portfolio. In a similar way to engagement, the Trustee will also consider how best to assess the voting activity of the Scheme's managers and how best to then engage with the managers where necessary. The Trustee will use its stewardship themes to help define what it considers to be a most significant vote which will be used in the next Implementation Statement. In the interim, the Trustee has asked its voting managers to provide their most significant votes, based on the managers' own definitions. These have been included in this report below.

As a result of the prospective appointment of Goldman Sachs Asset Management (GSAM) as the Trustee's Outsourced Chief Investment Officer (see further detail below), and recognising the significance of this move and the potential benefits flowing from it, the Trustee committed to finalising the Scheme's stewardship policy following the transition during the 2023/2024 Scheme year. As a result, the Scheme's formal stewardship policy was not in force during the Scheme year and the Trustee will report on the voting and engagement behaviour of their investment managers against the full set of additional requirements contained in the updated DWP guidance in the next Implementation Statement due to be published in 2024.

The Trustee would like to make clear that whilst the stewardship policy is due for completion by 31 March 2024, stewardship remains a priority for the Trustee. Details of the engagement activities performed by Hermes EOS across the listed equity and corporate credit portfolios on behalf of the Trustee are included in the Appendix, with further detail on the Trustee's stewardship efforts included in the "Risk Management" section of the TCFD report, which may be found at the following website:

[TCFD BAE Systems Pension Scheme Full Report 2023](#)

Within both the DB and DC portfolios, the Trustee also carries out stewardship activities in relation to the Private Market, Bond and Property investments to ensure that all of the investments are managed in the members' best interests. This is explained in further detail in the Appendix.

The most significant votes made on the Trustee's behalf fall into the following three categories:

- Remuneration: failing to link pay to appropriate performance.
- Governance issues: preserving shareholders' rights.
- Environmental Issues: not taking sufficient account how environmental changes may affect the business.

Appointment of GSAM

In September 2023, it was announced that the BAE Systems Pension Scheme Trustee had selected GSAM as their proposed Outsourced Chief Investment Officer, with the transition to the new arrangements expected to complete by the end of 2023. This agreement means that our current in-house investment management team (BAPFIM) are expected to join GSAM by the end of 2023, allowing the Trustee to benefit from the investment capabilities of GSAM whilst retaining the knowledge and expertise of the in-house team.

Conclusion on compliance with the SIPs

BAPFIM, as the Trustee's principal investment manager for the DB Sections of the Scheme (Airbus and BAE Systems), is responsible for making sure that BAPFIM and its external managers invest the assets of the DB Sections in line with the Trustee's policies and the relevant SIPs. Redington as the appointed investment adviser for the DB Sections, and Aon as the appointed investment adviser for the DC Section, advise and support the Trustee in making sure that the policies and the SIPs are appropriate and up to date. These advisors provide regular feedback, allowing the Trustee to review how the investments have met the policies detailed in the respective SIPs during the Scheme year. Further detail on the Trustee's SIPs, and on how they have been met during the Scheme year, is set out above.

In the Trustee's opinion, based on this document, the Scheme has followed the investment policies set out in the DB and DC SIPs during the Scheme year.

Signed on behalf of the Trustee, BAE Systems Pension Scheme

Signature redacted

Andrew Gallagher

Chair of the Trustee of the BAE Systems Pension Scheme

Appendix: Detailed Stewardship Activities

DB Fund Managers

DB Fund Managers – Voting Figures

Investment Manager	% of resolutions voted on	% of resolutions voted with management	% of resolutions voted against management	% of resolutions voted against proxy adviser recommendation
Artemis	99.8	95.8	4.2	1.5
AXA	100.0	94.4	5.6	1.8
BAPFIM	84.5	91.8	8.2	4.2
Federated Hermes*	100.0	84.0	15.0	10.0
LGIM	99.8	81.9	18.1	13.9
Maple-Brown Abbott (MBA)	100.0	70.7	29.3	11.7
Normura	100.0	87.5	12.6	7.4
Oak Hill	100.0	83.3	16.7	11.1
Polunin*	100.0	80.0	20.0	n/a
RMB Capital*	100.0	95.0	5.0	n/a

* Voting for Federated Hermes, Polunin and RMB Capital are provided up to the dates of disinvestment.

Artemis

Artemis manages a UK equity fund for the DB Sections of the Scheme. It has received a copy of the DB SIPs (Airbus and BAE).

Hermes EOS manage the stewardship and voting activities on behalf of the Trustee for this fund.

The Trustee can confirm that in its opinion, after taking advice from BAPFIM, Artemis has acted in line with the Trustee's policies.

AXA

AXA manages a UK equity fund for the DB Sections of the Scheme. It has received a copy of the DB SIPs (Airbus and BAE).

Hermes EOS manage the stewardship and voting activities on behalf of the Trustee for this fund.

The Trustee can confirm that in its opinion, after taking advice from BAPFIM, AXA has acted in line with the Trustee's policies.

BAPFIM

BAPFIM is a wholly owned subsidiary of BAE Systems. BAPFIM manages certain assets and also manages the relationships with external managers on behalf of the Trustee. For the separately managed accounts with whom the Trustee has a discretionary management agreement, giving effect to the SIP is a requirement under pensions law, and is built into the agreements the Trustee has with each manager.

BAPFIM, on behalf of the Trustee, use the services of Federated Hermes EOS for the Stewardship and engagement activities for some quoted equities and corporate bonds.

Further details of Hermes EOS's approach to Responsible investing can be found here:

Hermes EOS Stewardship

The voting guidelines can be found here:

Hermes EOS voting guidelines

Private Market investments

BAPFIM on behalf of the Trustee manage stewardship activities in Private Markets, Private Equity and Alternative investments.

The overall Private Market portfolio consists of over 200 individual investments across a diverse range of investment strategies and geographies (UK, Continental Europe, North America and Asia). Scheme investments are predominantly in funds, managed by a General Partner ("GP"), where the Trustee is a Limited Partner ("LP") alongside many other LP's. For reasons of materiality, detailed below, in general terms, the controls in place to ensure good governance and stewardship.

Private Markets, Private Equity and Alternative investments

At the Pre-investment stage

As part of BAPFIM's investment due diligence, it concentrates on evaluating how strong the alignment of interest between a LP/GP is, including but not limited to, the level of GP co-investment made to a fund to ensure the investment team has "skin-in-the-game" alongside investors, key terms and in particular around termination and key-man clauses, and investment scope and limitations.

Additionally, managers will typically have a conflict-of-interest policy which is reviewed as part of the investment due diligence. Before completing any investment, the Private Markets team ensure that the GP has been made aware of the BAE Systems Code of Conduct and is asked to confirm that the Code of Conduct does not differ from their own methods and philosophy of doing business.

Cambridge Associates ("CA") (another one of the Trustee's investment advisors) conduct operational due diligence for all Private Equity investments and cover a number of areas such as management team, organisation structure, compliance oversight and governance, fund administration and accounting, third-party service providers support, systems and technology. CA also assist with operational due diligence on some Alternative investments – where they do not, a proprietary questionnaire is utilised to evaluate these areas.

Post-investment

Once the Trustee enters into a contractual relationship in a fund, the Scheme, as a LP, cannot participate in day-to-day operations of that fund. LPs ensure that there are mechanisms in place to protect against and manage conflicts of interest or any other deviation from the proposed investment strategy.

If and when conflicts of interest arise, they are disclosed, discussed and consented at the Limited Partner Advisory Committee ("LPAC"). LPACs are typically composed of representatives of the LP community. Senior BAPFIM executives with specific knowledge and expertise of these types of investments are typically members of the LPACs for both Alternative Asset investments and Private Equity Investments.

As part of the regular update with managers, they provide updates on ESG matters.

Property Investment

BAPFIM, on behalf of the Trustee, oversees and manages stewardship activities in the Property investments. Property portfolio management is mostly outsourced to specialist investment managers. Each has its own ESG policy. When appointing a new manager these ESG policies are reviewed, interrogated, and form part of any decision-making process, and are then reviewed annually

thereafter. BAPFIM also reviews ESG practices during formal manager meetings, held at least quarterly, and supplemented by regular less formal communication. ESG is an increasingly dominant theme of discussion, due to the rapidly evolving regulatory backdrop and increasing costs of best practice.

BAPFIM: Conflicts of Interest

The Trustee believes that on the basis that BAPFIM does not provide services to external clients, it has no conflicting duties or arrangements in place. The investment strategy and decisions made by BAPFIM align with the Trustee's investment policies. The Trustee can confirm that in its opinion, BAPFIM have acted in line with the Trustee's policies.

Hermes EOS engagement

From January to December 2022, Hermes EOS engaged with 175 companies on 1,990 ESG issues. Environmental topics accounted for c.25% of engagements, c.65% of which were specifically on climate change issues.

Hermes EOS measures engagement progress using a four-stage milestone system:

1. the concern is raised with the company;
2. the company acknowledges the issue;
3. the company develops a credible strategy, and
4. the company implements the strategy.

Each milestone comprises company-specific objectives, which can be qualitative and quantitative. The evaluation against those milestones informs the overall progress of the engagement plan. The status by engagement milestone as at the end of 2022 is presented below:

DB engagement activity in 2022 with milestones – listed equity and corporate credit

Listed Equity Theme	Total engagement objectives identified	M2- Concerns acknowledged	M3- Plan established	M4 – Plan Implemented	Complete	Engagement discontinued
Environmental	106	21	28	29	24	4
Social and Ethical	50	9	12	12	13	4
Governance	44	7	11	9	10	7
Strategy, Risk, Communication	26	1	10	10	5	0
Total engagements	226	38	61	60	52	15

Source: Hermes EOS as at 31 December 2022. 'M' refers to the milestone.

Corporate Credit Theme	Total engagement objectives identified	M2- Concerns acknowledged	M3- Plan established	M4 – Plan Implemented	Complete	Engagement discontinued
Environmental	71	18	21	13	18	1
Social and Ethical	30	10	8	4	7	1
Governance	30	5	6	4	8	7
Strategy, Risk, Communication	18	0	6	3	6	3
Total engagements	149	33	41	24	39	12

Source: Hermes EOS as at 31 December 2022. 'M' refers to the milestone.

Federated Hermes Investment Funds

Federated Hermes manages a small and medium capitalisation US equity fund for the DB Sections of the Scheme. It votes on behalf of the Scheme and has received a copy of the DB SIPs (Airbus and BAE). This mandate was fully redeemed from in October 2022.

Through the Hermes EOS unit, Federated Hermes also provide shareholder voting research and analysis as part of its services to the Scheme (as detailed above in the BAPFIM section).

The Trustee can confirm that in its opinion, after taking advice from BAPFIM, Hermes has acted in line with the Trustee's policies.

First Property

First Property manage property assets for the DB Sections of the Scheme. It has received a copy of the DB SIPs (Airbus and BAE).

Further details of First Property's approach to Responsible Investing in Property can be found [here](#):

First Property Stewardship

The Trustee can confirm that in its opinion, after taking advice from BAPFIM, First Property have acted in line with the Trustee's policies.

JP Morgan

JP Morgan manages Asia Pacific and Emerging Market equity funds for the DB Sections of the Scheme. It votes on behalf of the Scheme and has received a copy of the DB SIPs (Airbus and BAE). This mandate was redeemed from in October 2022.

Further details of JP Morgan's approach to Responsible Investing can be found [here](#):

JP Morgan Stewardship

And its voting guidelines can be found [here](#):

JP Morgan voting guidelines

The Trustee can confirm that in its opinion, after taking advice from BAPFIM, JP Morgan has acted in line with the Trustee's policies.

Legal & General Investment Management

LGIM manages an Equity fund for the DB Sections of the Scheme. They vote on behalf of the Scheme and they have received a copy of the DB SIPs (Airbus and BAE).

Further details of LGIM approach to Responsible Investing can be found [here](#):

LGIM Stewardship

And its voting guidelines can be found [here](#):

LGIM voting guidelines

LGIM have significant resources dedicated to Stewardship and the Trustee can confirm that in its opinion, after taking advice from BAPFIM, Legal & General has acted in line with the Trustee's policies.

Maple-Brown Abbott

Maple-Brown Abbott (MBA) manages an Asian equity fund for the DB Sections of the Scheme. It votes on behalf of the Scheme and has received a copy of the DB SIPs (Airbus and BAE).

Further details of MBA's approach to Responsible Investing can be found [here](#):

MBA Stewardship

And its voting guidelines can be found here:

MBA voting guidelines

The Trustee can confirm that in their opinion, after taking advice from BAPFIM, Maple-Brown Abbott has acted in line with the Trustee's policies.

Nomura

Nomura manages a Japanese equity fund for the DB Sections of the Scheme. It has received a copy of the DB SIPs (Airbus and BAE).

Hermes EOS manage the voting activities on behalf of the Trustee for this fund.

The Trustee can confirm that in their opinion, after taking advice from BAPFIM, Nomura has acted in line with the Trustee's policies.

Oakhill

Oakhill manages a Corporate Bond fund for the DB Sections of the Scheme. They have received a copy of the DB SIPs (Airbus and BAE).

Further details of Oakhill's approach to Responsible Investing can be found here:

Oakhill Stewardship

The Trustee can confirm that in its opinion, after taking advice from BAPFIM, Oakhill acted in line with the Trustee's policies.

OLIM

OLIM manages a property fund for the DB Sections of the Scheme. It has received a copy of the DB SIPs (Airbus and BAE).

Further details of OLIM's approach to Responsible Investing in Property can be found here:

OLIM Property Stewardship

The Trustee can confirm that in its opinion, after taking advice from BAPFIM, OLIM has acted in line with the Trustee's policies.

Polunin

Polunin manages an Emerging Markets equity fund for the DB Sections of the Scheme. It votes on behalf of the Scheme and has received a copy of the DB SIPs (Airbus and BAE). The fund was fully redeemed from in October 2022.

Further details of Polunin's approach to Responsible Investing can be found here:

Polunin Stewardship and voting

The Trustee can confirm that in their opinion, after taking advice from BAPFIM, Polunin has acted in line with the Trustee's policies.

RMB Capital

RMB managed a small and medium capitalisation US equity fund for the DB Sections of the Scheme. It votes on behalf of the Scheme and has received a copy of the DB SIPs (Airbus and BAE). This mandate was fully redeemed from in October 2022.

RMB outsources its proxy voting to ISS and utilise their standard voting policy.

The Trustee can confirm that in its opinion, after taking advice from BAPFIM, RMB Capital has acted in line with the Trustee's policies.

Stewart Investors

Stewart Investors managed an Emerging Markets equity fund for the DB Sections of the Scheme. It votes on behalf of the Scheme, and they have received a copy of the DB SIPs (Airbus and BAE). This mandate was fully redeemed from in April 2022 and no voting took place between 31 March 2022 and the date of disinvestment.

Further details of Stewart Investors' approach to Responsible Investing and voting can be found here:

Stewart Investors Stewardship

Stewart Investors consider advice from third-party sources, but the investment team makes all the decisions about how to vote based on the merits of each specific case.

The Trustee can confirm that in its opinion, after taking advice from BAPFIM, Stewart Investors has acted in line with the Trustee's policies.

DB and DC Fund Managers

DB and DC Fund Managers – Voting Figures

Investment Manager	% of resolutions voted on	% of resolutions voted with management	% of resolutions voted against management	% of resolutions voted against proxy adviser recommendation
Blackrock (DB)	100.0	96.7	3.3	2.5
Blackrock (DC)	95.9	89.2	6.7	0.3
Columbia Threadneedle (DB)	89.7	87.7	12.2	6.9
Schroders (DB)	100.0	80.2	19.8	8.0
Schroders (DC)	98.8	89.8	9.0	0.7

* The DC fund that Columbia Threadneedle manages is a property fund and as such doesn't have voting rights.

BlackRock

BlackRock manage a UK equity fund for the DB Sections of the Scheme.

BlackRock was also the largest manager of individual funds (eight) included in the DC sections. The largest five of these made up 77% of the voting. These funds are:

- ACS 50:50 Global Equity Tracker Fund – The Fund seeks to track the performance of the FTSE Custom Composite UK All-Share index (50% Developed Europe excluding UK, 16.7%, US 16.7%, Japan 8.3%, Developed Asia Pacific ex Japan 8.3%)
- iShares Emerging Markets Equity Index Fund - The Fund seeks to track the performance of the FTSE Emerging Index
- ACS World ex UK Equity Fund - The Fund seeks to track the performance of the FTSE Developed excluding UK Custom ESG Screened Index.
- BlackRock Dynamic Diversified Growth Fund - The Fund seeks a return over the medium term (3 consecutive years), which exceeds the Bank of England's Base Interest Rate by 3.5%.

- iShares UK Equity Index Fund – The Fund seeks to track the performance of the FTSE All Share Index.

BlackRock received a copy of both the DB and DC SIPs.

Further details of BlackRock's approach to Responsible Investing can be found here:

BlackRock Stewardship

And its voting guidelines can be found here:

BlackRock voting guidelines

The voting for UK equity fund in the DB section is delegated to Hermes EOS.

An sample of significant votes for Blackrock as follows:

Date	Company	Resolution Summary	Vote	Rationale
May 2022	Amazon	Report on efforts to reduce plastic use	For	The company did not meet Blackrock's expectations for disclosure of natural capital policies and/or risk.
Dec 2022	Alphabet Inc	Oversee and Report a Third-Party Racial Equity Audit	For	Blackrock believes it is in the best interests of shareholders to have access to greater disclosure on this issue.
May 2022	ASA	Instruct Company to Stop all Oil and Gas Exploration in the Norwegian Sea	Against	Proposal is not in shareholders' best interests.

The Trustee can confirm that in its opinion, after taking advice from BAPFIM and Aon, BlackRock has acted in line with the Trustee's policies.

Columbia Threadneedle

Columbia Threadneedle manages a European equity and a Property fund for the DB Sections of the Scheme and also managed a self-select property fund for the DC Sections of the Scheme. It received a copy of both the DB and DC SIPs.

Hermes EOS manage the stewardship and voting activities on behalf of the Trustee for the DB fund. As property managers, they do not exercise the rights to vote.

Further details of Columbia Threadneedle's approach to Responsible Investing can be found here:

Columbia Threadneedle Stewardship

Further details of Columbia Threadneedle's approach to Responsible Investing in Property can be found here:

Columbia Threadneedle Property Stewardship

The Trustee can confirm that in its opinion, after taking advice from BAPFIM and Aon, Columbia Threadneedle has acted in line with the Trustee's policies.

Schroders

Schroders manages an Asia Pacific ex Japan Equity fund for the DB Sections of the Scheme and, for the DC Sections of the Scheme, managed a self-select Emerging Markets as well as managing investments under the Clerical Medical With Profits fund. It received a copy of both the DB and DC SIPs.

Hermes EOS manage the stewardship and voting activities on behalf of the Trustee for the DB fund.

Further details of Schroders' approach to Responsible Investing can be found here:

Schroders stewardship

And its voting guidelines can be found here:

Schroders ESG guidelines

The Trustee can confirm that in its opinion, after taking advice from BAPFIM and Aon, Schroders in conjunction with Hermes EOS has acted in line with the Trustee's policies.

A sample of significant votes over the period is below:

Date	Company	Resolution Summary	Vote	Rationale
May 2022	Tencent Holdings Limited	Approve Issuance of Equity or Equity-Linked Securities without Pre-emptive Rights.	Against	Excessive dilution without pre-emptive rights.
April 2022	NOVATEK JSC	Approve Annual Report, Financial Statements, and Allocation of Income	Against	Schroders will be voting against all resolutions at Russian companies during the Ukraine war.
June 2022	Gold Fields Ltd.	Approve Remuneration Implementation Report	Against	A generous bonus to the former CEO is unjustified particularly as there is lack of disclosure around the performance conditions achieved, assessments on the balanced scorecard or pro-rating for time and performance.

DC Fund Managers

DC Fund Managers – Voting Figures

Investment Manager	% of resolutions voted on	% of resolutions voted with management	% of resolutions voted against management	% of resolutions voted against proxy adviser recommendation
HSBC	97.0	80.5	19.8	12.1
Invesco	98.9	94.0	6.1	3.8
Liontrust	99.0	97.2	2.8	1.5
Vanguard	98.6	95.2	4.8	0.4
Veritas	100.0	88.5	11.5	11.0

**Figures may not sum to 100% due to rounding*

abrdn

abrdn provided asset management services for the Scheme's DC members via a number of funds: Annuity Targeting Pension Fund, Corporate Bond Pension Fund, Global Corporate Bond Fund and the Deposit and Treasury Pension Fund. abrdn received a copy of the DC SIP. Due to the nature of investments, the manager did not have voting rights attached to the holdings.

Further details of abrdn's approach to Responsible Investing can be found here:

abrdn Stewardship

The Trustee is able to confirm that in its opinion, after taking advice from Aon, abrdn acted in line with the Trustee's policies.

HSBC

HSBC ran a self-select Sharia compliant fund for the DC Section. It received a copy of the DC Section SIP.

Further details of HSBC's approach to Responsible Investing can be found here:

HSBC Stewardship

HSBC voting guidelines

A sample of significant votes over the period is below:

Date	Company	Resolution Summary	Vote	Rationale
March 2023	Apple Inc	To elect Director Sue Wagner	Against	Concerns about insufficient diversity of the board.
Jan 2023	Visa Inc	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	AGAINST grant of shares or options to executives within the LTIP that are not majority (+51%) linked to performance criteria. AGAINST grant of shares or options to executives within the LTIP if the vesting period is less than 3 years.
Feb 2023	Accenture	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	HSBC considers the quantum of the total pay excessive. They also have concerns about the grant of shares or options to executives within the LTIP if the vesting period is less than 3 years.

The Trustee can confirm that in its opinion, after taking advice from Aon, HSBC acted in line with the Trustee's policies.

Engagement

HSBC aims to support and encourage companies to comply with principles of good governance and environmental sustainability. It also helps us to understand and evaluate the ESG risks and opportunities at a company level, drive positive behaviour and promote high standards. They prioritise engagements based on their holding, issue and exposure, not necessarily whether they expect change and will be able to demonstrate outcomes.

Engagement example 1 – PepsiCo

HSBC presented the PepsiCo with biodiversity & food research, which they had developed in the last engagement campaign. In meeting with PepsiCo's regenerative agriculture lead, HSBC learned more about the implementation of the regenerative agriculture plan, and how key variables would be measured. They also probed the pre-competitive work PepsiCo does to raise standards across Fast-Moving Consumer Goods ("FMCG") and within their supply chain, with farmer training being a key challenge. After meeting their regenerative agriculture lead, HSBC encouraged the company to better disclose their work on regenerative agriculture and give investors shorter term milestones.

Engagement example 2 – Thermo Fisher

Thermo Fisher (an American supplier of specialty laboratory, pharmaceutical, and biotechnology services) presented strict distribution arrangements and a cut off for any distributors associated with rogue customers. The company has added extra sales team training so colleagues can spot potential cases that are not ethical. As part of the drug development activities on a sequencing machine, the company has moved ahead of regulations to stop delivering certain products to specific geographies. The company believes product role is overstated by allegations, as product cannot determine ethnic

origins of groups. This initial meeting gave HSBC reassurance and confirmed its view of the next step for the company. The company is now reviewing its human rights reporting and assessing the UN Guiding Principles framework as HSBC requested.

Invesco

Invesco managed assets within the DC Section's Diversified Growth Fund and Multi-Asset Fund. It received a copy of the DC Section SIP.

Further details of Invesco's approach to Responsible Investing can be found [here](#):

Invesco Stewardship

UK Stewardship Code Report

And its ESG and proxy voting framework can be found [here](#):

Invesco ESG voting and engagement policies

Date	Company	Resolution Summary	Vote	Rationale
April 2022	Barclays Plc	Authorise Issue of Equity in Relation to the Issuance of Contingent Equity Conversion Notes.	For	<p>A vote for these resolutions is warranted, although this is not without concern:- If the Company were to issue Equity Conversion Notes (ECNs) and a trigger event were to occur, causing them to convert into ordinary shares, this would result in significant dilution to non-participating shareholders. The main reasons for support are:</p> <ul style="list-style-type: none"> - Such authorities are common proposals at UK banks and are intended to apply in extreme circumstances only; and - The conversion into ordinary shares would require the CET1 ratio to fall to a level which would denote significant capital weakness well beyond the Company's current position and minimum regulatory requirements.

The Trustee can confirm that in its opinion, after taking advice from Aon, Invesco acted in line with the Trustee's policies.

Engagement

Invesco engage with a variety of stakeholders such as issuers, regulators, and industry bodies, either directly or through their membership association. They don't have an approximate split between these engagements, but the majority would be direct issuer engagement.

At the issuer level, they primarily seek to address problematic areas or opportunities for improvement from an ESG perspective. When engaging with other stakeholders, such as regulators or industry bodies, their goal is more towards creating an inducive environment that would allow for optimal ESG outcomes in an efficient and fair manner, such as alignment with existing frameworks and reduced reporting burden.

Engagement example 1 – Johnson & Johnson ("JNJ")

Invesco challenged JNJ to gain clarity on proxy items. JNJ has 14 proposals scheduled for its AGM and 9 of them are viewed as contentious. Invesco used the call to discuss proposals 10, 11 and 13, regarding "discontinuing talc powder", "reporting on charitable contributions" and "prohibit compensation adjustment for litigation costs", respectively. JNJ said it discontinued talc sales in North America due to weak demand owing to talc litigation. However, the company continues to sell the product in Europe and elsewhere where demand is viewed as moderately strong. JNJ said its charitable contributions are detailed on government websites and it views self-reporting unnecessary. Finally, JNJ doesn't believe

its Long-Term Incentive Plan compensation metrics (adjusted Earnings Per Share, Free Cash Flow) shouldn't be indefinitely prohibited from litigation cost adjustments because litigation costs are difficult to estimate. Invesco will make a recommendation to holders on JNJ's proxy items, prior to the company's AGM on April 22nd.

Engagement example 2 – Sysco Corporation ("SYY")

Invesco voted unanimously in favour of SYY's proxy in 2021 on reporting GHG emissions reduction targets. SYY listened and recently disclosed science-based targets to reduce scope 1 & 2 emissions by 27.5% by 2030. Although Invesco was encouraged by this, it challenged SYY to set 2026 targets and consider a slight acceleration in its scope 3 target setting. Invesco stressed that any scope 3 emissions target should be conservative and cost effective. SYY detailed its plan to reduce scope 1 & 2 through fleet electrification and green buildings. On animal welfare, SYY said meat comprises ~19% of its total revenue. However, it doesn't disclose the company's contribution to total US pork volumes. Invesco recommended SYY emphasize board experience on animal welfare and asked that it outline commitments specifically on pig gestation crates.

Liontrust

Liontrust ran a self-select UK focussed fund for the DC Sections and it received a copy of the DC SIP.

Further details of Liontrust's approach to Responsible Investing can be found [here](#):

Liontrust Stewardship

And their voting guidelines can be found [here](#):

Liontrust voting guidelines

A sample of significant votes for the period is below:

Date	Company	Resolution Summary	Vote	Rationale
April 2022	Natwest	Re-elect Frank Dangeard as Director.	Against	In addition to his role as NED of the Company, Frank Dangeard serves on boards of three other publicly listed companies, in particular, as Board Chair in two of those. This could potentially compromise his ability to commit sufficient time to his role at NatWest Group Plc.
July 2022	RS Group	Approve Remuneration Policy.	For	Liontrust believe the CEO and FD have done an outstanding job in reversing the fortunes of the company and positioning the business for long term success. It is important for the remuneration to be competitive, especially considering that the CEO is American and is probably a greater flight risk as a consequence. Moreover, the award targets are extremely stretching and have the strong underpinning of the 20% ROCE condition.

The Trustee can confirm that in its opinion, after taking advice from Aon, Liontrust acted in line with the Trustee's policies.

Engagement

Liontrust's engagement priorities are driven by the key risks and opportunities identified for each holding during the materiality assessments.

In recent months, they have paid particular attention to Net Zero transition plans and to how Liontrust's holdings are mitigating the impact of the cost of living crisis on their workers and customers.

Engagement example 1 – Boohoo

Liontrust identified the responsible oversight of supply chain as a key risk for Boohoo. The company has faced significant historical controversies regarding human rights in its supply chains. They also identified governance and risks controls as a key issue given the recurrence of controversies.

Liontrust have engaged regularly with the company over these issues since initiating our position in 2021. They have engaged the company during in person meetings with C-suite executives and with Board directors, as well as in writing. They last engaged with Boohoo in September 2022 to query the company on the findings of a recent survey in its Leicester factory. They also asked about the controls in place to avoid greenwashing and how the company defines its "sustainable" clothing line.

Boohoo has made some progress to improve the oversight of its supply chain, notably by implementing its "Agenda for change" programme. The company has robust auditing processes, both internal and external. However, concerns remain around risks controls and governance. Liontrust have reduced resiliency and conviction scores for Boohoo and have reduced Liontrust's position.

Vanguard

Vanguard ran a self-select ESG focussed fund for the DC Section, and it has received a copy of the DC SIP.

Further details of Vanguard's approach to Responsible Investing can be found here:

Vanguard Stewardship

Vanguard Investment Stewardship Report

A sample of significant votes for the period is below:

Date	Company	Resolution Summary	Vote	Rationale
May 2022	Meta Platforms Inc	Approve Recapitalization Plan for all Stock to Have One-vote per Share.	For	Supports long-term shareholder interests.
May 2022	United Parcel Service	Report on Corporate Climate Lobbying Aligned with Paris Agreement	For	Addresses material risk(s) and an oversight or disclosure gap, is not overly prescriptive, and is determined to be in the best long-term interest of shareholders.
July 2022	J Sainsbury Plc	Shareholder Resolution on Living Wage Accreditation	Against	Overly prescriptive in dictating company strategy or operations.

The Trustee can confirm that in its opinion, after taking advice from Aon, Vanguard acted in line with the Trustee's policies.

Veritas

Veritas ran a self-select global equity fund for the DC Section and it received a copy of the DC Section SIP.

Further details of Veritas' approach to Responsible Investing can be found here:

Veritas stewardship

And its voting guidelines can be found here:

Veritas voting guidelines

A sample of significant votes for the period is below:

Date	Company	Resolution Summary	Vote	Rationale

April 2022	Charter Communications Inc.	Report on Effectiveness of Diversity, Equity and Inclusion Efforts and Metrics	For	Reporting quantitative, comparable diversity data would allow shareholders to better assess the effectiveness of Charter's diversity, equity and inclusion
May 2022	Unilever Plc	Approve resolution report.	Against	Veritas voted against as they believed performance issues vs peers and in relation to the failed GSK bid did not merit the level of proposed compensation.
June 2022	Alphabet Inc	Amend Omnibus Stock Plan.	Against	Based on evaluation of the estimated cost, plan features, and grant practices using the Equity Plan Scorecard (EPSC), a vote AGAINST this proposal is warranted due to the following key factor(s): - The three-year average burn rate is excessive - The disclosure of change-in-control ("CIC") vesting treatment is incomplete (or is otherwise considered discretionary) - The plan permits liberal recycling of shares - The plan allows broad discretion to accelerate vesting.

Engagement

Veritas' approach to stewardship focuses on materiality and encouraging constructive behaviour. They seek to engage with management if they deem there to be financially material sustainability issues. If the company engages in an activity that challenges the sustainability of its operation or demonstrates lack of vision to adapt, Veritas see this as cause to engage. Coupled with Materiality, they believe Veritas Asset Management (VAM) has a part to play in encouraging constructive behaviour. As such, they effectively have two tiers of engagement. Tier one is defined as significant engagement which as described above, is a specific attempt to influence governance/business practices that have a material impact on long-term sustainable value creation. Second tier engagement is classified as interactions with a company to promote good business practice.

The Trustee can confirm that in its opinion, after taking advice from Aon, Veritas acted in line with the Trustee's policies.