

This **Implementation Statement** has been prepared by the Trustee of the **BAE Systems Pension Scheme** (the "Scheme"), and **it covers the period 1 April 2024 to 31 March 2025** (the "Scheme year").

This Implementation Statement:

- sets out the changes made to the Scheme's Statement of Investment Principles ("SIP") documents over the Scheme year;
- describes how the Trustee's policies on exercising rights (including voting rights) and engagements in relation to Scheme investments have been followed over the Scheme year;
- describes the voting behaviour by, or on behalf of, the Trustee during the Scheme year; and
- describes the engagement activity in respect of the Scheme's investments during the Scheme year.

The Scheme has two segregated defined benefit ("DB") sections, the BAE Systems Section and the Airbus Section (together the "Sections" and each a "Section"). The Scheme has a separate SIP in relation to the investment of assets held for the DB liabilities for each of the BAE Systems Section and the Airbus Section (referred to in this Implementation Statement as the "DB SIPs").

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

## 1. What changes have been made to this Implementation Statement?

In previous years the Implementation Statement covered both DB SIPs as well as the defined contribution ("DC") SIP.

In July 2023, most of the remaining DC assets of the Scheme were transferred to the BAE Systems Retirement Savings Plan - a section of the Mercer Master Trust ("MMT"). The MMT is a separate pension scheme from the Scheme and is administered by Scottish Widows. As a separate scheme, the MMT produces its own SIPs and corresponding Implementation Statements. The DC assets not transferred to the MMT in 2023 belonged to a small portion of members who were subsequently bought out in early 2024, before the beginning of the Scheme year in question.

As a result of this transfer, the only DC assets that remain in the Scheme are certain assets attributable to Additional Voluntary Contributions ("AVCs"). The only AVC-attributable assets that remain within the Scheme are insured with-profits funds and direct investments under the Scheme. No new investments are available, but members can add to these investments under their existing AVC arrangements.

As the Scheme no longer holds any DC assets other than those relating to AVCs, the requirements for what the Scheme's Implementation Statement must include have changed. The statement is now required, as a minimum, to:

- set out how, and the extent to which, in the opinion of the Trustee, the policies have been followed and met in the DB SIPs relating to:
  - the exercise of the rights (including voting rights) attaching to the investments; and
  - undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee will monitor and engage with investment managers, issuers of shares and debt, and other relevant stakeholders about

matters relevant to the investment, including a company's strategy, performance, corporate governance and management of risks); and

describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on their behalf) during the Scheme year and state any use of the services of a proxy voter during that year.

## 2. What changes have been made to the DB SIPs over the Scheme year?

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 DB liabilities in each of the BAE Systems Section and the Airbus Section of the Scheme. This Implementation Statement covers both the BAE Systems Section and the Airbus Section SIPs.

You will find the two SIPs on the BAE Systems pensions website at:  
***[baesystems.com/disclosableinformation](https://baesystems.com/disclosableinformation)***

During the previous Scheme year, the Trustee appointed Goldman Sachs Asset Management International ("GSAM") to be its Outsourced Chief Investment Officer ("OCIO"). GSAM also undertake both Sections' stewardship and engagement activities on behalf of the Trustee.

Both SIPs were updated on 11 July 2024, with the key changes to each Section summarised below:

### **BAE Systems Section SIP changes:**

The BAE Systems Section SIP was updated to incorporate content previously held in the Investment Policy Implementation Document ("IPID"), which has now been discontinued. Historically, the IPID served as the Trustee's instruction to the Scheme's in-house investment manager BAE Systems Pension Fund Investment Management ("BAPFIM"). However, under the new governance model with GSAM, these instructions are now captured in the "Investment Guidelines" within the BAE Systems Section's investment management agreement ("IMA") pursuant to which GSAM provides its services. To avoid duplication and potential conflict, the Trustee, following legal advice, consolidated the relevant IPID content into the SIP and Investment Guidelines.

Additional updates to the BAE Systems Section SIP include the addition of excerpts from the Scheme's stewardship policy around GSAM's voting responsibility and the Trustee's engagement policies, as well as updating the AVC Section following the transfer of the vast majority of the remaining DC assets to the MMT.

### **Airbus Section SIP changes:**

The Airbus Section SIP was updated to reflect the move from an asset-led discount rate strategy, a maturity driven strategy, to a cashflow matching strategy, aligning it to the strategy followed by the BAE Systems Section.

As for the BAE Systems Section SIP:

- The Airbus Section SIP was revised to consolidate content from the now-discontinued IPID, which previously sat alongside the SIP and Investment Guidelines within the IMA, as noted above. Under the new governance model with GSAM, the Investment Guidelines now serve as the primary instruction mechanism, eliminating the need for a separate IPID and reducing duplication; and
- The additional updates to the Airbus Section SIP include excerpts from the Scheme's stewardship policy around GSAM's voting responsibility and the Trustee's engagement policies in light of GSAM's appointment, as well as updating the AVC Section following the transfer of the vast majority of the remaining DC assets to the MMT.

### 3. What are the Trustee's policies on exercising voting rights and engagements?

- The Trustee has delegated the management of each Section's assets to GSAM. In selecting new investment managers for the Section, GSAM, on the Trustee's behalf, considers potential managers' approaches to responsible investment ("RI") as a factor in their decision making.
- The Trustee recognises that stewardship includes the exercise of voting rights and engagement with investee companies (directly or via investment managers) on matters relevant to the long-term performance of an investment. It recognises that good corporate governance creates the framework within which a company should be managed. The ultimate purpose of the Trustee's duty of stewardship is to preserve and enhance long-term investor value and to reduce the risks underlying these investments. The Trustee's belief is that actively engaging on financially material factors, which include ESG issues, contributes to identifying both investment opportunities and risks.
- As set out in its stewardship policy, to optimise the impact the Scheme can make, the Trustee has chosen to identify one key stewardship theme from each category within ESG. These are:
  - **Environmental:** Climate change
  - **Social:** Human rights
  - **Governance:** Business ethics
- GSAM supports the Trustee with managing stewardship and voting policies in relation to its equity holdings, where applicable. The exercise of voting rights is therefore delegated to GSAM. Their role is to vote in accordance with GSAM's stated policy, endorsed by the Trustee, and to engage with companies to ensure that companies follow the adopted policies.
- However, during the Scheme year covered by this Implementation Statement, none of the assets held by either Section had voting rights attached. This is because, for liquidity purposes, before the Scheme year in question began the Scheme's listed equity holdings were restructured from physical equities to synthetic equities. Synthetic equities do not have voting rights. The other assets held comprised government bonds, public and private corporate bonds, and other private assets (including private equity, property and infrastructure equity) which do not have voting rights attached. As a result, no votes were cast during the Scheme year.
- The Trustee delegates engagement activities with issuers of debt and private market investments to GSAM where appropriate and expects managers to engage with issuers. The Trustee recognises that there is no 'one-size-fits-all' stewardship approach and encourages its managers to prioritise stewardship opportunities and apply the most suitable/influential engagement strategies based on their in-depth knowledge.
- Leading direct engagement with issuers is a minimum stewardship expectation of the Trustee. The Trustee expects its managers to use letter writing, phone calls, participation and attendance at annual and other shareholder meetings, and focused engagement dialogues with both management teams and non-executive directors. The Trustee monitors at what level GSAM engages to ensure that they are able to access the right engagement counterparts and influence company behaviour where appropriate. The Trustee will challenge GSAM if it feels their engagements are not sufficiently focused on decision-makers such as management or board-level executives.

**4. Evidence of these policies being met over the Scheme year:**

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

Policy	Evidence that the policy has been followed over the Scheme year
<p>The Trustee considers the risk that ESG factors can have a significant effect on the long-term performance of the assets held.</p>	<p>The Trustee expects GSAM and any external fund managers to take account of RI and ESG, including climate-related risks, as financially material considerations. GSAM is employed as the Scheme’s specialist stewardship service provider to help ensure that active engagement is 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 continues to receive an annual “Stewardship Monitoring Report” designed by their investment adviser and populated by GSAM. This report monitors GSAM’s engagement activities against the Trustee’s chosen stewardship themes and ensures GSAM meets the requirements set out in the Trustee’s stewardship policy. The report will continue to be updated over time and presented at least annually.</p> <p>The Trustee published its third annual TCFD report during the Scheme year and will publish its fourth report in October 2025, which aids the Trustee in reviewing how the Scheme is exposed to climate risk and opportunities.</p> <p>The Trustee, with assistance from its advisers, maintains a risk register monitoring the risks deemed most material to the Scheme. Responsible Investment risks are included on this register and their likelihood and potential impact to the Scheme both pre and post-mitigation are monitored quarterly. The risk register is annually reviewed to ensure the risks contained remain the most material to the Scheme.</p>
<p>The ultimate purpose of the Trustee’s duty of stewardship is to preserve and enhance the long-term investor value and to reduce the risks underlying these investments. The Trustee’s belief is that actively engaging on financially material factors, which include ESG issues, contributes to identifying both investment opportunities and risks.</p>	<p>GSAM, 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.</p> <p>As mentioned above, the Trustee receives an annual Stewardship Monitoring Report. The report will continue to be updated over time and presented at least annually, with meaningful updates provided at more regular intervals as required. A current focus is to begin to incorporate the stewardship of certain private assets held by the Scheme into the next iteration of the report in 2026.</p>
<p>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.</p>	

## **5. Stewardship of investments of the Scheme**

As stated previously, the day-to-day management of the Scheme's investments is carried out by GSAM, the Scheme's OCIO. The Trustee, through GSAM, assesses the delivery of effective engagement by its fund managers and looks to hold them to account for the effective delivery of engagement with assets in which the Trustee, through GSAM, invests.

The Trustee also delegates stewardship matters to GSAM who utilise their internal services to pursue stewardship activities in respect of the DB assets. Given the assets held in each Section's portfolios during this Scheme year did not come with associated voting rights, no votes were cast over the course of the Scheme year. Details of the stewardship activities undertaken throughout the year are included in the Appendix.

## **6. Conclusion on compliance with the SIPs policies regarding voting and engagement activities**

The DB SIPs include the Trustee's policies in relation to the exercise of rights (including voting rights) attaching to Scheme investments and undertaking engagement activities in respect of such investments. These policies are described in section 3 above.

GSAM is responsible under the IMAs for ensuring that the assets of the Scheme are invested in line with the Trustee's policies and the relevant SIPs. Redington, as the appointed investment adviser for the Scheme, advise and support the Trustee in making sure that the policies and the SIPs are appropriate and up to date. Both GSAM and Redington therefore support the Trustee in following the SIP policies relating to the exercise of rights attaching to investments and undertaking engagement activities. These advisers provide regular feedback, allowing the Trustee to review how the investments have met these policies (which, as noted, are detailed in the respective SIPs) during the Scheme year. Further detail on the DB SIPs, and on how these policies have been met during the Scheme year, is set out above.

In the Trustee's opinion, the Scheme has followed these policies set out in the DB SIPs during the Scheme year.

**Signed on behalf of the Trustee, BAE Systems Pension Scheme**

**Chair of the Trustee of the BAE Systems Pension Scheme**

## Appendix: Detailed Stewardship Activities

### GSAM

Day-to-day investment decisions have been delegated to GSAM and a number of external investment managers, managed through GSAM, in accordance with guidelines agreed with the Trustee in the IMAs.

The data provided in this Appendix covers the Scheme year.

#### Voting:

No voting data has been provided as, during the Scheme year, none of the assets held by either Section had voting rights attached.

#### Engagement:

During the period, GSAM has carried out 110 engagements (25% of which were thematic engagements) across 75 issuers, representing 46% of the Scheme's portfolio by value. GSAM also engaged with 9 of the top 10 largest emitters in the Scheme's public asset portfolio over the Scheme year.

A summary of GSAM's engagements in relation to the Trustee's chosen themes are included below:

- Climate change – 15 engagements
- Human rights – 7 engagements
- Business ethics – 7 engagements

Examples of GSAM's engagement with investee companies in relation to the Trustee's chosen stewardship themes is provided below:

#### Engagement example 1 – A large materials company

**Theme:** Climate Change

**Context:** In June 2024, members of GSAM's Global Stewardship Team engaged with the Investor Relations team and the Head of Climate & Energy at a large Swiss materials company. GSAM had identified the company for engagement under its Climate Transition engagement initiative, which focuses on encouraging companies in high-impact sectors to implement robust and measurable climate transition strategies. Areas of focus for this engagement included the company's decarbonisation and capital allocation strategies.

GSAM had previously engaged with the company in February 2023.

**Action:** During the June 2024 engagement, GSAM encouraged the company to provide greater clarity on its exposure to unabated carbon-intensive assets and products. GSAM also shared its view that publishing a capital allocation plan would enhance transparency and allow shareholders to better assess the alignment of capital expenditures with the company's climate objectives.

**Outcome:** The company advised that it is working to reduce coal usage across its operations but noted that progress is dependent on improvements in local regulation, waste management, and infrastructure. It is considering setting a 2030 target for coal reduction but highlighted that greater access to alternative fuels is needed before such a target can be formalised.

GSAM considers this an ongoing engagement and will continue to monitor progress.

#### Engagement example 2 – A multinational utilities company

**Theme:** Human Rights

**Context:** In February 2025, members of GSAM's Global Stewardship Team engaged with the Investor Relations and Legal teams at a large Italian utilities company. GSAM had identified the company for

engagement under its Global Norms and Incidents framework, following concerns around worker safety after an explosion at a hydroelectric plant in northern Italy in 2024.

**Action:** GSAM had previously engaged with the company in April 2024, shortly after the incident occurred. During that initial engagement, the company outlined its remediation efforts, including the launch of an internal review of safety procedures and the commencement of an external investigation.

In the most recent engagement, the company provided updates on its response. Authorities ceased monitoring water levels and emissions in the affected area in October 2024.

**Outcome:** Investigations into the root cause are ongoing, with preliminary findings suggesting the issue may have been mechanical and specific to the site, rather than indicative of a broader systemic problem.

GSAM noted that continued transparency and timely disclosure would be beneficial to stakeholders as the situation evolves. GSAM considers this an ongoing engagement and will continue to monitor progress.

### Engagement example 3 – A multinational materials company

**Theme:** Business Ethics

**Context:** In December 2024, members of GSAM’s Global Stewardship Team engaged with the Investor Relations, Corporate Secretary and Sustainability teams at a large Anglo-Swiss materials company. GSAM had identified the company for engagement under its Global Norms and Incidents framework, following allegations of corruption and adverse impacts on local communities.

This was GSAM’s second engagement on the topic, having previously engaged in 2022. The company has been associated with large-scale corruption and bribe payments involving business partners, offshore entities, and government officials in countries including the Democratic Republic of the Congo (DRC), Chad, Angola, Venezuela, and Brazil. In 2022, the company reached a major settlement, agreeing to pay USD 1.1 billion and to undergo a multi-year monitorship by government regulators.

**Action:** During the engagement, GSAM discussed the monitorship process with the company. The company publishes an annual compliance and ethics report, which includes updates on the monitorship, highlights of its compliance programme, whistleblowing policies, and related quantitative data.

**Outcome:** While the company is not permitted to disclose the monitor’s specific recommendations, it confirmed that none are considered material and that it intends to implement all of them.

GSAM considers this an ongoing engagement and will continue to monitor progress.

### Conflicts of interest

The arrangements put in place by GSAM to seek to manage its conflicts of interests include:

- Information barriers / separation of functions
- Policies and procedures (building on regulatory requirements)
- Governance and control oversight
- Compensation / rewards structure
- Disclosure / client understanding

To mitigate perceived or potential conflicts of interest when a proxy is appointed for shares of The Goldman Sachs Group Inc. or a GSAM managed fund, GSAM will generally instruct that such shares be voted in the same proportion as other shares are voted with respect to a proposal, subject to applicable legal, regulatory and operational requirements.

GSAM has not encountered any material conflicts of interest in relation to our stewardship activities over the period.