Devonport Royal Dockyard Pension Scheme

Statement of Investment Principles – September 2026

1. Introduction

The Devonport Royal Dockyard Pension Trustees Limited (the "Trustee") of the Devonport Royal Dockyard Pension Scheme (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and subsequent legislation. The Statement sets out the investment principles that govern decisions about the Scheme's investments.

In preparing this Statement the Trustee has consulted Devonport Royal Dockyard Limited (the "Sponsoring Company") and its parent company, Babcock International Group PLC ("Babcock"), to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements.

A description of the Scheme's current investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document ("IPID")

In preparing this Statement the Trustee has considered written advice received from the Scheme's investment adviser, Mercer Ltd, which is considered to be suitably qualified and is authorised under the Financial Services and Markets Act 2000 (as amended). The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Trustee identifies appropriate investment objectives and considers its own investment beliefs.
- Trustee sets the investment strategy based on a level of risk that is consistent with meeting the Scheme's objectives.
- The Trustee is responsible for the investments of the Scheme. However, the implementation of the strategy determined by the Trustee has been delegated to the Scheme's Investment Committee (the "IC").

The IC has been created in order to ensure that investment matters receive a sufficient degree of attention. Its responsibilities are set out in the Terms of Reference, under which the IC operates. The IC will regularly monitor the performance of appointed investment managers and the continued appropriateness of the asset classes used by the Scheme to achieve the investment objectives.

3. Investment Objectives

The Trustee's objective is to invest the Scheme's assets in the best interests of the members and beneficiaries. The Trustee has agreed a number of objectives to help guide its strategic management of the assets and control the various risks to which the Scheme is exposed. The Trustee's primary objectives are as follows:

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

While security is paramount, the Trustee recognises that a "least risk" approach to investment strategy would substantially increase the cost of the Scheme (possibly to unacceptable levels). The Trustee has thus decided to pursue a strategy which takes on some investment risk in a controlled fashion.

In setting the investment strategy, the Trustee considers the requirements of the recovery plan, which aims to achieve full funding on the Technical Provisions basis through a combination of contributions and investment returns. In addition, when setting the investment strategy, the Trustee considers the following objectives:

1. Aiming for full funding on a gilts +0.5% p.a. basis over the medium-term.
2. Aiming for a long-term return which, if achieved, should improve and then maintain the Scheme's funding level.
3. Adopting a strategy, which aims to limit the level of investment risk, and the resulting funding level, deficit and contribution volatilities, to an acceptable level.

This has led to the adoption of a Scheme-specific investment strategy, which is implemented on a day-to-day basis by the investment managers.

The Trustee will continue to monitor the appropriateness of the strategy and the path towards the medium-term funding target and revisit this approach should it be necessary to do so. The Trustee has considered the level of risk inherent in the chosen investment strategy, based on advice provided by Mercer, its investment advisor, and is comfortable with this level of risk.

4. Risk Management and Measurement

The risks affecting the Scheme can be broadly split out into those that could directly affect the funding position of the Scheme and investment risks that could specifically affect the Scheme's assets. The Trustee's policy on risk management is as follows:

4.1 Funding Level Risks

- The primary risk arises through a mismatch between the Scheme's assets and its liabilities. The Trustee recognises that increasing the potential for additional returns through increasing investment risk also increases the risk of a shortfall in assets required to cover the Scheme's liabilities as well as producing short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different investment strategies with different levels of risk.
- The Trustee recognises the risks that may arise due to the sensitivity of the value of the Scheme's liabilities to changes in interest rates and inflation. The Trustee has considered these risks and has decided to hedge the interest rate and inflation risk associated with the Scheme's liabilities up to the gilts +0.5% funding level (i.e. 100% of assets) such that the gilts +0.5% funding level is broadly unaffected by changes in interest rates and inflation.
- In order to manage the overall risk of the Scheme, the Trustee monitors the Scheme's 1-year 95% Value at Risk on a gilts +0.5% basis. The Trustee also regularly monitors the probability of achieving its medium-term funding objective.
- The Trustee recognises the risks that may arise from changes in the value of the Scheme's liabilities due to improving life expectancy. The Trustee has considered these risks and in 2009 decided to enter into a longevity swap agreement covering the pensioner liabilities at that time in order to mitigate some of this risk.
- The Trustee has to post collateral in relation to the longevity swap and other derivative instruments in which the Scheme invests. The Trustee understands the collateral requirements will change and these are reviewed regularly. The collateral requirement will be managed within the Scheme's Matching portfolio.

4.2 Investment-Specific Risks

- Arrangements are in place to monitor the Scheme's investments to check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets regularly and receives regular reports from the IC and Mercer.
- The Trustee recognises a number of additional risks and has delegated appropriate powers to the IC to enable the IC to manage these risks.
- The use of active management gives rise to the risk that the performance achieved within each asset class may be lower than expected. However, the Trustee believes that this risk is outweighed by the potential gains from successful active management if the manager's skills have been carefully assessed. The Trustee believes there is a role for both active and passive management. Passive management may be used for one of a number of reasons, including investment in markets deemed "efficient", where the scope for active management to add value is limited.

- The Trustee recognises the risks that may arise from a lack of diversification of investments and aims to ensure the policy in place results in an adequately diversified portfolio.
- The Trustee and the IC recognise that short- and medium-term investment opportunities will arise throughout the lifetime of the Scheme. The IC will generally only look to take advantage of medium to long term investment opportunities, whilst shorter term decisions regarding the investment and selection of specific stocks are delegated to the Scheme's investment managers.
- Where the Scheme holds investments denominated in foreign currencies, there is the risk that fluctuations in foreign exchange rates may reduce the returns on these investments. The Trustee hedges a proportion of currency risk.
- The safe custody of the Scheme's assets is delegated to professional custodians. Northern Trust is the global custodian for the Scheme.
- There should be no investment in securities issued by the Sponsoring Company or affiliated companies (other than any such securities held within a pooled fund in which the Scheme invests).
- Borrowing is only permitted to cover short term liquidity requirements and for hedging purposes.

In addition, the Trustee is required to provide narrative disclosures on the credit and market risks arising from its investment arrangements in the Trustee Annual Report and Accounts. These risks are defined as follows:

- **Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- **Market risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:
    - **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
    - **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
    - **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
    - **Environmental, Social and Governance ("ESG") risk:** ESG issues including climate change may have substantive impacts on the global economy and

subsequently investment returns. The Trustee seeks to minimise this risk by monitoring and regularly reviewing that advisers and fund managers to the Scheme (via the IC) are suitably experienced to consider these risks in the service they provide to the Scheme.

The above items are in relation to what the Trustee considers to be 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations will be dependent on the maturity of the Scheme and the Trustee's view of the Covenant.

5. Investment Strategy

The Trustee has adopted a strategy with the aim of generating sufficient investment returns to achieve the Scheme's investment objectives. Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment strategy should be altered. The investment strategy takes account of:

- the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners);
- the funding level;
- the expected strength of covenant of the principal employer;
- and the Scheme's liquidity requirements (which includes collateral requirements arising from the Scheme's investments in LDI assets). The Trustee monitors the Scheme's liquidity and collateral requirements on a regular basis (via the IC).

The Strategic Asset Allocation ("SAA") of the Scheme as well as full details of the Scheme´s current benchmark and expected return are set out in the IPID. The Growth Portfolio allocates to a range of asset classes with higher expected returns, but also higher expected volatility. It is intended that these returns are generated in an efficient manner (i.e. such that expected returns are maximised relative to expected risk).

The Defensive Portfolio aims to reduce risk whilst still generating some return above the growth in the Scheme's liabilities. The primary aim for a significant part of the portfolio is to generate positive returns over the longer term with lower volatility and also to generate some income to meet benefit payments. Where applicable, the avoidance of default risk is an objective.

The Matching Portfolio is a very low risk portfolio relative to the liabilities, which consists of gilts, gilt repos, network rail bonds, cash and swaps. Its primary aim is to hedge the liabilities, such that the funding level on a gilts +0.5% basis is immunised against the impact of changes in interest rates and inflation.

The Trustee delegates the design of the Growth, Defensive and Matching Portfolios to the IC.

The Trustee has established tolerance ranges to keep the asset distribution broadly in line with the strategic asset allocation. The tolerance ranges are detailed in the IPID. The Trustee recognises that market movements may cause the Scheme's allocations to these asset classes to drift outside the tolerance ranges specified above. Should the asset allocation breach the ranges, the Trustee/IC will consider whether/how to rebalance the assets back to target; rebalancing is not automatic. Deviations outside of the tolerance ranges will be reported to the Trustee as part of the IC's regular reporting to the Trustee.

The IC will request Trustee authorisation (and consult with the Company) if any new investment is considered 'illiquid' e.g. a lock up of greater than 3 years. Further, the IC will only invest in new asset classes having taken appropriate advice from the Trustee's investment advisors.

The Trustee has agreed to maintain the strategic asset allocation until a pre-agreed funding level trigger is reached, at which point the Trustee will consider de-risking options.

6. Day–to-Day Management of the Assets

The day-to-day management of the assets has been delegated to a number of investment managers. The IC have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The IC have determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The IC regularly review the continuing suitability of the Scheme's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. However, any such adjustments would be done with the aim of ensuring the overall levels of risk and return are consistent with those being targeted by the Trustee.

7. Realisation of Investments

The investment managers have discretion in the timing of realisation of investments.

The IC monitor the allocation between the appointed managers and between asset classes.

8. Environmental, Social and Governance Investment Considerations

The Trustee believes that environmental, social, and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee takes a pragmatic approach to ESG issues and considers the materiality in terms of both risk and return.

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

The Trustee has communicated to the managers (via the IC) clear expectations that the Scheme's investment managers consider the risks and return opportunities that may arise by considering ESG factors within their overall investment processes.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis.

The Trustee has identified some key themes to use to engage with investment managers and monitor most significant votes. These include climate change, human rights (including modern slavery), executive remuneration (including any vote against a remuneration report where executives are awarded bonuses despite missing targets) and diversity (including any vote against the chair when the board is not sufficiently diverse). The Trustee has also considered broad alignment with the Sponsoring Company's sustainability priorities when defining these themes. The Trustee reviewed its definition as to what constitutes a "most significant" vote. Specifically, with regards to the materiality condition (defined as more than 5% of the relevant fund's holdings at the date of the vote), the Trustee notes that should there be no holdings meeting this threshold, the relevant vote for the next biggest holding will be reported in the Engagement Policy Implementation Statement instead.

The Trustee also considers the investment advisor's assessment of how each of the investment managers embed ESG into their investment process and how the managers' responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustee can regularly review the decisions made by their managers, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long term performance over the medium to long term. In addition, the Trustee carries out regular reviews of the investment managers' ESG policies and actively engages with investment managers to better understand their processes.

The Trustee has not currently set any investment restrictions on the appointed investment managers in relation to particular products or activities. Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.

Member views are not taken into account in the selection, retention and realisation of investments.

9. Investment Manager Appointment, Engagement and Monitoring

In line with sections 2-3 of this Statement, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which they are selected.

The Trustee looks to its investment advisor for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the advisor's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The advisor's manager research ratings assist with due diligence and questioning managers during presentations to the IC/Trustee and are used in decisions around selection, retention and realisation of manager appointments.

As part of the IC's regular reporting to the Trustee, the Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee's focus is on long term performance but will put a manager 'on watch' if there are short term performance concerns.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives and may ask the manager to review their fees – either the Annual Management Charge or the performance related fee element.

Some appointments are actively managed and the managers are incentivised through remuneration (via performance related fees, noting that some have hurdle rate structures in place to avoid the Trustee paying additional fees during periods of long term underperformance) and performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) regularly.

As the Trustee invests in some pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The Trustee will monitor portfolio turnover costs as appropriate.

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis.

For open-ended funds in which the Scheme invests, there is no set duration for the manager appointments. The Trustee will retain an investment manager unless there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager; or the manager appointment has been reviewed and the Trustee has decided to terminate. For closed-ended funds, the Scheme is generally invested in a manager's fund for the lifetime of the fund. At the time of appointment, the investment managers provided an indication of the expected investment duration of their funds and have the discretion to extend the lifetime of the fund in line with the Investment Management Agreement. In order to maintain a strategic allocation to such asset classes, the Trustee may choose to stay with a manager in a new closed fund for that asset class or appoint a different manager.

10. Review of this Statement

The Trustee will review this Statement at least annually and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. The Sponsoring Company will also be consulted regarding any change to this Statement.

11. Compliance with this Statement

The Trustee monitors compliance with this Statement annually.

Signed _____

Dated __7 October 2026_____