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Bodycote UK Pension Scheme Implementation Statement

September 2025

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Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Implementation Statement

This implementation statement is to provide evidence that the Trustee continues to follow and act on the principles outlined in the Statement of Investment Principles ("SIP").

The SIP can be found online at the web address:

Bodycote UK Pension Scheme - Bodycote Plc

Changes to the SIP are detailed on the following page.

The Implementation Report details:

- actions the Trustee has taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Trustee has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate

Summary of key actions undertaken over the Scheme reporting year

The Trustee monitors the investments on an ongoing basis, including receiving regular reporting from the Scheme's investment adviser and investment managers.

Reporting includes monitoring of the Scheme's investment strategy versus targets detailed in the SIP, reviewing the performance of the investments versus relevant benchmarks and/or their stated objectives, and monitoring investment risks.

Following an investment strategy review in Q4 2024, the Trustee implemented several strategy changes to position the assets towards an insurance ready portfolio ('Buy-out Aware' portfolio). The liability hedging portfolio was reviewed as part of this and a decision was made to increase the liability hedging towards that of an insurance basis. As part of this, a full redemption of the Legal & General (L&G) Buy & Maintain Credit Funds and the L&G Cash Fund was carried out and all excess cash was invested into the L&G US Securitised Fund (L&G ABS Fund).

To further align with insurer pricing, the Trustee also instructed a full redemption from the Apollo Semi-Liquid Credit mandate to reduce illiquid asset exposure. After the accounting period, the disinvestment proceeds were received into the Trustee Bank Account and surplus cash was reinvested into the L&G ABS Fund in May 2025. Permira (Direct Lending) is no longer in the strategic benchmark and the allocation to this will continue to reduce as capital is returned to the Trustee.

The Statement of Investment Principles ("SIP") and Investment Implementation Document ("IID") have been updated to reflect the new strategy benchmark.

Post year-end, the Permira Credit Solutions II Senior Fund entered into liquidation whilst Permira determine suitable exit strategies for the two remaining holdings. Permira expects the two remaining assets to be sold in 2026, which is expected to provide the Scheme with the final return of capital (valued at c.£2.3m as at 31 March 2025). During this period investors are not being charged fund management fees by Permira.

Implementation Statement

This report demonstrates that the Bodycote UK Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed: Bodycote Pension Trustees Limited on behalf of the Bodycote UK Pension Scheme

Date: September 2025

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	The Trustee aims to hedge this risk where it is deemed appropriate and affordable.	To manage interest rate and inflation risk, a new LDI solution targeting a 95% hedging ratio on the Scheme's proxy Buyout basis was implemented in January 2025. The overall composition of the LDI mandate was also updated through full redemption of the L&G Buy & Maintain Credit mandate and the L&G Cash Fund. A new allocation to L&G US Securitised Fund (Asset-Backed Securities) was implemented, which serves as a collateral asset supporting the LDI mandate whilst earning an additional return above cash. The automatic collateral waterfall arrangement remains in place whereby the L&G Asset Backed Securities Fund and the Global Unconstrained Bond Fund [1] would be used automatically in the event of an LDI capital call. The LDI mandate is monitored on an ongoing basis with a more detailed review periodically.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI mandate.	The Trustee monitors the level of liquid assets available to the LDI manager on an ongoing basis. Sufficient liquidity was maintained over the period to ensure cashflow requirements were met in a timely and cost-efficient manner in line with strategy.

Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified to avoid over-reliance on any one asset class.	The Trustee maintained a diversified portfolio over the year to 5 April 2025. The investment strategy is expected to ensure the effectiveness and efficiency of the Scheme's portfolio. The SIP reflects the current investment strategy. Further details are provided below.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	The Trustee maintained a diversified portfolio of credit assets over the year to 5 April 2025. The Scheme's investment adviser meets with the Scheme's investment managers on a regular basis to monitor portfolio risk.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To acknowledge Environmental, Social and Governance factors when appointing new mandates and when monitoring existing mandates.	More details of the ESG policy and how it was implemented are presented in pages 8,9 and 10 of this report.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To largely invest in GBP share classes where possible to eliminate direct currency risk. To largely invest with managers that hedge exposure to foreign currency risk in underlying holdings, except where active currency positions are held.[2]	The vast majority of Scheme assets were held in Sterling denominated funds over the period.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments	Non-financial matters, such as reputational risks, are taken into account in the selection, retention and realisation of investments where it is deemed appropriate.	Non-financial matters are considered where appropriate on an ongoing basis.

Notes:

(1) The L&G Absolute Return Bond fund was renamed to the L&G Global Unconstrained Bond Fund post Scheme year-end. This does not reflect any change in the Fund's investment approach.

(2) The Scheme's Direct Lending manager, Permira, may have non-GBP principal investments which are hedged back with a portion of income hedged also.

Changes to the SIP

Over the reporting period to 5 April 2025, there have been no changes made to the Scheme's SIP. Post year end, the Scheme's SIP was updated to reflect the following key changes:

- An overview of the strategic changes to transition the Scheme towards a 'Buyout Aware' portfolio. Please see page 2 and 3 for further details.
- An update to the Scheme's expected return and new strategic benchmark/ investment structure, including the new allocation to Asset Backed Securities. Following the de-risking measures, the Scheme's overall expected return is now c. Gilts + 0.8% p.a.
- Addition of the 'Leverage and collateral management' section. This details the Scheme's automatic LDI collateral waterfall arrangement and helps improve the Scheme's adherence to tPR's (the Pensions Regulator) LDI guidance. Please see further details in the table below.
- Updates to ESG engagement wording to reflect the Scheme's current ESG approach. (For example, reporting of ESG engagement data of individual mandates in the annual Implementation Statement).

Policies added to the SIP	
Date updated: June 2025	
Leverage and Collateral Management	• The Trustee will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's liability hedging (LDI) portfolio. • The Trustee have a stated collateral management framework. The Trustee have agreed a process for meeting collateral calls should these be made by the Scheme's LDI investment manager. The Trustee will review this framework over time. • Further details on this can be found in the Scheme's IID.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk. As outlined in the 'Investment manager arrangements' section of the SIP, all decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations, including Environmental, Social and Governance ('ESG') factors in making these decisions.
- The exercise of rights (including voting rights) attaching to the investments.
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The 'Investment Manager Monitoring and Engagement' section of the SIP outlines the framework the Trustee uses to monitor and engage with the investment managers on ESG matters.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social and Governance factors and the exercising of rights and engagement activity	• The Trustee receives information from their investment advisers on the investment managers' approaches to engagement. • The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental, and corporate governance issues. • The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters.	• The manager has not acted in accordance with their policies and frameworks.

Engagement

As the Scheme invests via fund managers, the Trustee delegates the day-to-day management of the Scheme's assets to investment managers. The managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 31 March 2025, (rather than 5 April 2025 due to availability of data). Details of the investment managers' engagement actions are included below.

There were no voting rights attached to the Scheme's investments over the 12-month period to 5 April 2025. The majority of the Scheme's assets are credit based where there are no voting rights attached.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	Total engagements: 254 Environment: 244 Social: 246 Governance: 246 Please note that total engagement number does not account for cases of repeat engagement	Apollo takes a top-down and bottom-up approach to ESG engagement with issuers and their representatives (bankers, sponsors, etc.). Investment teams can leverage internal frameworks and tools, such as the ESG Risk Assessment, to identify where ESG factors may present potential risks and opportunities. In cases where risks or potential opportunities are identified, investment teams, can engage with issuers either unilaterally or with the support of the Sustainable Credit and Platforms Team. The team engages with companies/issuers to help drive value creation and/or address stakeholder expectations across four key pillars: Transparency and Disclosure; Financing the Energy Transition; Theme-based engagements and Materiality-driven engagements. Examples of a significant engagement include: **Clean Harbors, Inc** Apollo engaged with Clean Harbors on the Company's progress and strategic challenges in reducing greenhouse gas emissions. The Company has seen significant successes in optimising routing and fleet activities, extending the life of heavy-duty vehicles through refurbishment, and constructing new plants that meet stringent MAG 2 air standards. However, as the company expands, challenges such as increased waste and emission intensity remain, with certain parts of the business struggling to gain third-party recognition for their clean-up efforts. The Company has primarily focused on Scope 1 and 2 emissions with a growing focus on Scope 3 emissions through helping customers reduce their Scope 3 emissions and plans to invest in technology to improve reporting. Despite handling large waste volumes, Clean Harbors maintains high compliance and works closely with regulators to settle disputes / take corrective actions when necessary. To attract and retain talent, Clean Harbors implemented several initiatives such as training and development plans, an employee

		stock purchase plan, and have increased internal promotions. Unionised employees are treated the same as non-union employees, with specific working conditions in agreements. The Company ensures its waste management facilities are operated equitably and safely by holding mandatory community meetings and maintaining strong ties with local communities.
L&G Global Unconstrained Bond Fund	Total engagements: 515 Environment: 262 Social: 93 Governance: 101 Other: 59 Please note that total engagement number does not account for cases of repeat engagement	L&G's engagement activity is guided by their global stewardship themes (climate, nature, people, governance, health and digitisation). They believe that effective stewardship involves collaborating with several groups, including companies, regulators and stakeholders to tackle risks and identify opportunities within the sustainable sphere. The responsible investment policies, as set out under their Climate Impact Pledge, are thoroughly researched, set and fine-tuned every year. L&G's policies range from minimum expectations, such as requiring financial expertise on the audit committee to clarifications around ESG measures. The policies are developed in conjunction with globally accepted levels of best practice (such as the OECD guidelines and the UNGC), and L&G's investment teams through their Global Research & Engagement Groups. L&G are also involved in a number of networks, allowing for increased collaboration and high standards of engagement. Examples of a significant engagement include: **Volkswagen AG** L&G engaged with Volkswagen due to its presence in Xinjiang (China) which gained public scrutiny regarding human right concerns. This culminated in MSCI flagging this issue as a controversy in late 2022. By late 2023, Volkswagen conducted an audit and succeeded in removing the MSCI flag but the Company continued to attract external criticisms. As such, L&G's team, led by a specialist automotive analyst, had regular engagements with the Company, ranging from the investor relations team up to the chief financial officer. Following discussions throughout 2024, Volkswagen announced the sale of its stake in the plant in Xinjiang, which reduced the company's risk exposure to the region. This disinvestment is not expected to have any negative operational or strategic impact on the Company.
L&G US Securitised Fund	L&G currently do not provide details of engagement activity within the portfolio. Isio are working with L&G to find ways of improving their engagement reporting.	L&G strives for effective stewardship through collaborations with companies, regulators, policymakers, peers, and other stakeholders. They integrate financially material sustainability criteria to create client value and drive positive change, focusing on six global stewardship themes: climate, nature, people, governance, health, and digitisation. L&G were unable to provide examples of significant engagement.
L&G LDI Funds	L&G currently do not provide details of engagement activity within the LDI portfolio. Isio are working with L&G to find ways of improving their engagement reporting.	L&G view ESG as an essential component to LDI and integrate ESG into their LDI approach on a top-down and bottom–up basis. L&G engage with regulators, governments, and other industry participants to address long-term structural issues, alongside, analysing ESG-related criteria in the assessment of counterparties through L&G's proprietary ESG tools. Alongside collaborating with regulators and industry peers to address systemic risks, L&G applies proprietary ESG tools to assess counterparties, ensuring alignment with long-term sustainability goals while managing liability-driven risks.

		Details of L&G's engagement policies can be found on their website: [Investment stewardship & governance | L&G]
M&G TRCI	Total engagements: 20 Environmental: 16 Social: 3 Governance: 1	M&G engage with governments, corporates, regulators and industry bodies, using a systematic approach in which predetermined objectives are established beforehand and evaluated based on the results of engagements. M&G monitors the success of an engagement by assessing whether they have met their objectives and log this into a wider system. M&G seek positive change within individual issuers, as well as improving market-wide risks. Engagement focusses several areas, including encouraging action, improving climate targets and improving board diversity. Examples of a significant engagement include: **Orsted** Given the potential negative biodiversity impacts of offshore wind, M&G engaged with Orsted (Danish offshore wind specialist) to ensure that the Company was advancing its approach to biodiversity. M&G also requested for the publication of forward-looking milestones that could be used to measure the Company's progress on its climate targets. As a result, Orsted engaged with specialists, such as a biodiversity consultancy and academia, to launch a new measurement framework for biodiversity. The new framework was implemented in January 2025, with a first set of metrics expected to be published by the end of 2025. The framework currently includes metrics such as the condition of habitat and population density of endangered species. Notably, the framework is aligned with the Environmental Impact Assessment the Company already has to undertake for new projects, and the Company wants to fully integrate this within its biodiversity framework. Orsted have demonstrated serious commitment to biodiversity with discussions ongoing to included biodiversity metric in its executive remuneration. M&G are expected to follow up after the initial framework and metrics have been published.
Permira PCS II	Permira were unable to provide engagement data over the reporting period, given that PCS II is a vintage fund with only 2 assets remaining, so opportunities for engagement are limited.	Permira's approach to engagement for Direct Lending is focused on a) Collective Engagement, via annual data collection and sharing insights in ESG report and webinars, b) Deeper, one-on-one engagement with portfolio companies, focused on specific ESG topics, and c) Industry engagement with peers and Industry bodies. As PCS II Fund is a legacy direct lending fund that is in run off, with only two investments remaining, opportunities for ESG engagement are limited and Permira were unable to provide examples of significant engagement.

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