

Chemring Group Staff Pension Scheme

Statement of Investment Principles
July 2025

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1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustee of the Chemring Group Staff Pension Scheme (the "Trustee" and the "Scheme", respectively). This statement sets out the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:
 - the Pensions Act 1995, as amended by the Pensions Act 2004; and
 - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- 1.2. In preparing this statement the Trustee has consulted Chemring Group PLC (the "Principal Employer"), and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultant. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and scheme funding legislation.
- 1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.5. The investment powers of the Trustee are set out in the Trust Deed and Rules. This statement is consistent with those powers.

2. Choosing investments

- 2.1. The Trustee has secured a bulk annuity policy with Pension Insurance Company ("PIC" and "the insurer"). PIC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

3. Investment objectives

- 3.1. The Trustee's main investment objectives are to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due.
- 3.2. The Trustee has obtained exposure to an investment (the "bulk annuity policy") that it expects will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

- 4.1. The Scheme is permitted to invest in a wide range of assets including annuity policies, equities, bonds, cash, property and alternatives.
- 4.2. The Trustee monitors from time-to-time the employer-related investment content of the Scheme's portfolio as a whole and will take steps to alter this should it discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

- 5.1. The Scheme holds a bulk annuity policy which is expected to meet the benefit entitlements of each of the Scheme's members.

- 5.2. The nature of the bulk annuity policy means that the insurer will meet cashflow requirements in respect of benefit payments. The Trustee expects any Scheme fees and other expenses (including any final benefit adjustments) to be met using the reserves held within bank account and, where relevant, contributions from the Principal Employer.

6. Risks

- 6.1. Given the nature of the insurance contract (intended to match the Scheme's liabilities) the main remaining risk for the Scheme's investments is the solvency of the insurer. The Trustee assessed this prior to investing in the contract. The ongoing solvency and prudent management of the insurer is monitored within the regulatory regime for UK insurance companies. The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

| | |
|-----------------------------|--|
| Risk versus the liabilities | The risk of the assets behaving differently from the Scheme's liabilities has been mitigated by purchasing an annuity policy that exactly matches the benefit payments due. |
| Asset allocation risk | The asset allocation is detailed in Appendix 1 to this Statement and is monitored by the Trustee. |
| Investment manager risk | The Scheme's main asset is the annuity policy held with PIC and there is no exposure to investment manager risk in relation to this asset. |
| Concentration risk | In relation to the bulk annuity policy, the Trustee is satisfied that the level of concentration is appropriate given the highly-regulated nature of the insurance market and the fact that the Trustee took professional advice on the financial strength of PIC prior to investing in the policy. |
| Liquidity risk | Responsibility for providing the monies to pay member benefits lies with the insurer as the provider of the bulk annuity policy, which mitigates the majority of the potential liquidity risk. |
| Currency risk | The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations. |
| Loss of investment | Given the nature of the insurance contract (which is expected to meet the benefit entitlements of each of the Scheme's members) the main remaining risk for the Scheme following the transaction is the solvency of the insurer. The Trustee carried out due diligence on the insurer prior to investing in the contract. The ongoing solvency and prudent management of the insurer is monitored within the regulatory regime for UK insurance companies. |

7. Expected return on investments

- 7.1. The Trustee has chosen to invest in a bulk annuity policy with the intention of achieving returns in line with movements in the value of the Scheme's liabilities. The expected income from the annuity contract will be that required to meet benefit payments

8. Realisation of investments

- 8.1. The Scheme's main investment is an annuity policy which is not readily realisable but is structured so as to pay benefits to members as they fall due. The Trustee has considered the risk of liquidity as referred to above.

9. Financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities

- 9.1. The Trustee has set policies in relation to these matters. These policies are set out in Appendix 2.

10. Agreement

- 10.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Principal Employer, the investment managers, the actuary and the Scheme auditor upon request.

Appendix 1 Note on investment policy of the Scheme as at July 2025 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Trustee has secured an insurance contract in respect of the Scheme’s liabilities. The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme’s liability profile, funding position, expected return of the various asset classes and diversification:

| Asset class | Strategic allocation |
|-------------------------|----------------------|
| PIC bulk annuity policy | 100% |

The Scheme will also hold any residual cash in the Scheme bank account. The purpose of this is to cover fees and other expenses, including any final benefit adjustments.

2. Choosing investments

The Trustee has secured an insurance contract in respect of the Scheme’s liabilities with the insurer, PIC. The insurer is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

3. Fee agreements

There are no ongoing fees in respect of the bulk annuity policy.

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are remunerated on a time-cost basis, as appropriate and agreed with the Trustee.

4. Investments and disinvestments

The expectation is that all benefit payments will be met by the insurer. The Trustee expects any fees and other expenses (including any final benefit adjustments) to be met using the existing cash reserves and, where necessary, contributions from the Principal Employer.

Appendix 2 Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters

The Trustee believes that Environmental, Social and Governance ("ESG") factors, including climate change (referred to together as "ESG issues"), are financially material – that is, they have the potential to impact the value of the Scheme's investments. The Trustee appreciates that the method of incorporating ESG in the investment strategy and process may differ between asset classes.

The Trustee is also cognisant of the different investment timeframes that may apply to investments. The Trustee believes that ESG issues, including climate change issues, may have a greater impact over a longer timeframe, compared to investments that are held for a shorter timeframe.

A summary of the Trustee's views for the bulk annuity contract is outlined below.

Bulk annuity contract

There is limited scope for the consideration of ESG issues from a financial materiality perspective given the investment is illiquid and its objective is to match member experience. Given the contract is fully illiquid and covers the Scheme's full liabilities, there is not any selection, or realisation of invested assets, and therefore there are no financially material considerations that are taken into account in relation to this, or indeed in relation to the retention of the contract.

There are no voting rights attached to the bulk annuity contract and the Trustee does not carry out engagement activities with the insurer given these are not expected to have a material impact on the investment.

Policy on the exercise of voting rights, engagement and stewardship activities

Following the purchase of the bulk annuity contract, the contract is fully illiquid and covers the Scheme's full liabilities. For this reason, except for a residual holding in cash, there is not any selection, or realisation of invested assets, and therefore there are no financially material considerations that are taken into account in relation to this, or indeed in relation to the retention of the contract.

There are no voting rights attached to the bulk annuity contract and the Trustee does not carry out engagement activities with the insurer given these are not expected to have a material impact on the investment. This includes issues such as capital structure, management of actual or potential conflicts of interest. The Trustee would, however, expect the insurer to have (and follow) a conflict management policy given their regulated status.

At this time, the Trustee has decided not to set stewardship priorities / themes for the Scheme given the nature of the investment arrangements.