

# Carillion Public Sector Pension Scheme

## Statement of Investment Principles – September 2023

### 1. Introduction

The purpose of the Statement of Investment Principles (“the Statement”) is to document the principles and policies governing decisions about the investment of the assets of the Carillion Public Sector Pension Scheme (“the Scheme”). This statement has been prepared by Independent Trustee Services Ltd in its capacity as Trustee of the Scheme (“the Trustee”). It sets out the Trustee’s policy for complying with the Pensions Act 1995 and subsequent legislation and is adopted with effect from September 2023.

The Trustee has received written advice from the Scheme’s investment consultants, Lane Clark & Peacock LLP (“LCP”) which is authorised and regulated by the Financial Conduct Authority (“FCA”) and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

The Scheme’s investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Implementation Policy Document (“IIPD”). Both are available to members on request and made available online.

The Scheme is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustee’s investment powers. The investment powers do not conflict with this Statement.

Before revising the Statement, the Trustee is required under the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) to obtain and consider the written advice of a suitably qualified individual. LCP have confirmed that it has is qualified by it’s ability in, and practical experience of, financial matters and has the appropriate knowledge of the investment of occupational pension schemes established under trust to advise the Trustee on the Statement.

The Trustee does not expect to revise this Statement frequently because it covers broad principles rather than their implementation. The Trustee will review it at least once every three years and without delay upon a material change to the Scheme. The Scheme entered a Pension Protection Fund (the “PPF”) assessment period on 16 February 2018 for assessing the Scheme’s eligibility to enter the PPF. While the assessment takes place, the Trustee retains day-to-day responsibility for the Scheme. During this period the Trustee is sharing details of the investment strategy changes with representatives of the PPF.

### 2. Decision Making Structure

#### 2.1 Overall investment policy falls into two parts:

a) The *strategic management* of the assets is fundamentally the responsibility of the Trustee acting on expert advice and is driven by the investment objectives as set out below. The Trustee reviews the investment policy on a regular basis, although it is not expected to change frequently. Details are set out in Section 3.

b) The *implementation* of the investment policy is largely delegated to the Trustee’s selected investment managers. Details are outlined in Section 4 with full details in the IIPD which the Trustee reviews when required or at a minimum annually.

### 3. Strategic Management

#### 3.1 Investment Objectives

Following the commencement of the PPF assessment period on 16 February 2018, the Trustee reviewed its investment objectives in consultation with the PPF, and took advice from its Investment Consultant. As the Scheme no longer has the financial support of the Sponsoring Employer, the Trustee decided to reorganise the assets to be consistent with the PPF’s guidelines (in terms of expected risk

and return on the Scheme's investments) for schemes in an assessment period. The transition of assets took place in stages over 2018 and 2019. The Trustee also decided to reduce risk further in H1 2020, and H2 2022 following advice from its Investment Consultant, and the Scheme now has a portfolio consisting of bonds, liability hedging assets and cash.

### **3.2 Policy with regard to Managing Risk**

The Trustee regards 'risk' as the likelihood of failing to achieve the objectives set out above and have, on the advice of LCP, taken several measures which are set out in this Statement to minimise this risk, so far as is possible.

The Trustee recognises that whilst increasing risk may increase potential returns over a long period, it also increases the risk of producing more short-term volatility in the Scheme's funding position. Following the commencement of the PPF assessment period for the Scheme, the Trustee's focus has had to change away from longer term growth issues towards protecting against short-term volatility during the PPF assessment period.

The overall level of investment risk is significantly influenced by the guidelines issued by the PPF for asset allocation during a PPF assessment period. A policy on more detailed risk issues is determined by the Trustee having considered expert advice (that includes assessment of the cost of change) and feedback from the PPF.

The Trustee will keep this issue under review as the likelihood of the Scheme entering the PPF becomes clearer over time. The risks the Scheme is exposed to will be measured as part of the strategy review process at each stage.

There are various risks to which any pension scheme is exposed. In arriving at its investment strategy and the production of this Statement, the Trustee has considered the following risks which the Trustee believes are financially material for the Scheme:

- 1) The risk of deterioration in the Scheme's funding level on an ongoing and short term basis.
- 2) Longevity risk – the risk that members will live longer than expected, therefore causing higher than anticipated liabilities.
- 3) The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee.
- 4) Asset/liability mismatch risk – caused by underlying risks which include: interest rate, inflation, credit, currency and equity market risks.
- 5) Liquidity Risk - the ease with which assets are marketable and realisable.

The Trustee believes that proper diversification of investments and that those investments are appropriately invested in a number of low risk assets is of the utmost importance. It is the Trustee's policy that investments should only be made in assets which are suitable for achieving the above objectives. As such the Trustee has also implemented the following measures:

- The Trustee has set the balance between assets that aims to minimise risk and seeks to comply with guidelines issued by the PPF for the asset allocation during the PPF assessment period.
- The assets are divided between different investment managers. This reduces the risk associated with one type of manager having responsibility for all of the Scheme's assets.
- The assets are held in collective investment vehicles that invest in a number of underlying stocks, diversified by company sector and country.
- To help reduce the potential interest rate and inflation risk, the Trustee has agreed to put in place a liability hedging portfolio through investments in pooled fixed interest and index-linked gilt

funds. The portfolio aims to closely match the sensitivity of the Scheme's liabilities to changes in interest rates and inflation.

### **3.3 Investment Strategy**

The Trustee recognises that the key source of financial risk (in relation to meeting its objectives) arises from asset allocation. The Trustee therefore retains responsibility for setting asset allocation, and takes expert advice as required from its professional advisers.

As the Scheme is in a PPF assessment period the Trustee monitors its investment strategy via its Investment Consultant on a periodic basis. After considering advice on the Scheme's current circumstances the Trustee has adopted a strategic asset benchmark. The asset allocation is set out in detail in the IIPD. A broad range of available asset classes has been considered.

The Scheme is currently invested in a number of low risk assets including fixed interest gilts, index-linked gilts, investment grade corporate bonds, cash and any other assets that the Trustee reasonably believes to be "low risk".

The investment strategy is reviewed regularly by the Trustee to ensure that it remains appropriate for meeting the objectives set out in 3.1 and for controlling the risks identified in 3.2.

## **4. Asset Allocation Strategy**

### **4.1 Main Assets**

The Trustee regards the choice of asset allocation policy as the decision which has most influence on the likelihood that it will achieve its investment objectives. In deciding the asset allocation strategy, the Trustee has taken advice from LCP and is in consultation with the PPF. The Trustee is satisfied that the spread of assets by type and spread within each type provides adequate diversification of investment for risk purposes.

Following discussions with the PPF, it is the Trustee's policy that the majority of the Scheme's investments are in securities which can be realised at short notice, or in cash.

The strategic weights to each asset class are targets and deviations from them may occur from time to time. Whilst there is no strategic allocation to cash, it is accepted that the Scheme's investment managers will need to hold part of the investments in cash or short-term deposits, in order to manage the assets in an efficient manner. In addition, allocations to cash or a money market fund may be held at the Scheme level if it is deemed appropriate for the smooth running of the Scheme.

The Trustee monitors the continued appropriateness of the strategy on an ongoing basis with the help of its advisers.

The overall investment strategy, the manager structure and mandate details are set out in Schedule A of the Scheme's IIPD. In addition, the Trustee's policy is to endeavour to secure the safety of the Scheme's assets. Custodial arrangements are outsourced to the preferred custodian at the respective investment managers.

### **4.2 Rebalancing Policy and Cashflow**

In order to maintain the strategic asset allocation policy, it is the Trustee's policy to review the actual asset allocation of the Scheme on a regular basis and where appropriate discuss with the PPF. More details are provided in Schedule B of the IIPD.

There is no formal cashflow policy in place. Advice is provided by the Scheme's advisors on an ad hoc basis taking into consideration expected cashflows, actual asset allocation and market views.

## **5. Investment Management Structure**

The Trustee has given the appointed investment managers full discretion when undertaking engagement activities in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code, where applicable.

The contractual documents for each fund manager set out the terms and conditions by and under which the respective portfolios will be managed and reported.

Full details of the manager structure are provided in Schedule A of the IIPD.

The Trustee employs more than one manager to limit the risk to the Scheme as a whole should any one manager (or more) underperform.

Having taken advice from LCP, the Trustee is satisfied it has adequate resources to institute and monitor a specialist management structure, with the help of the appointed investment consultant.

The Trustee will review the investment managers' policies and engagement activities (where applicable) on an annual basis.

## **6. Socially Responsible, Environmental and Ethical Investment ("SRI") and Corporate Governance**

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns, 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 require explicit consideration.

Individual member views regarding social, environmental and ethical issues are not explicitly taken into account in making day-to-day investment decisions, though they will be considered by the Trustee as and when they arise.

The Trustee has given its investment managers full discretion when evaluating ESG factors, including climate change consideration, 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. Managers are expected to report on their adherence to these Codes on an annual basis.

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 as frequently as the Trustee considers appropriate which includes details on the funds' ESG ratings as provided by the Scheme's investment advisor. A change in ESG rating does not mean that the fund will be removed or replaced automatically. Managers will also be expected to report on their own ESG policies as and when requested by the Trustee.

Given the Scheme's current status of being in the PPF assessment any further consideration of ESG integration will be considered alongside the PPF's guidelines on investment strategy during the period.

## **7. Monitoring the Scheme's Investments, Investment Managers and Risk**

In conjunction with LCP, the Trustee monitors the strategy, the managers' implementation and the risks taken. The monitoring is as follows:

### **7.1 Performance and Risk Measurement**

The performance of the managers is monitored as frequently as the Trustee considers appropriate. The monitoring takes into account both short term and long term performance. This monitoring helps the Trustee assess the risk that the appointed fund managers do not meet their performance objectives.

### **7.2 Investment Manager Appointment**

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 being selected for.

The Trustee looks to its investment consultant for their forward looking assessment of a manager's ability to outperform (or track a benchmark) over a full market cycle. This view will be based on the consultant'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 consultant's manager research ratings assist with due diligence and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

All funds held by the Scheme are through pooled investment vehicles. With respect to these pooled investments, the Trustee accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the Scheme's overall investment strategy.

The Trustee will also consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's 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.

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.

### **7.3 Investment Manager Monitoring**

The performance of the managers is monitored as frequently as the Trustee considers appropriate. LCP review absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated performance target (over the relevant time period). The Trustee's focus is primarily on long term performance but short term performance is also reviewed. As noted above, the Trustee, with advice from LCP, may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager;
- There is a change in the underlying objectives of the investment manager;
- There is a significant change to the Investment Consultant's rating of the manager.

### **7.4 Portfolio Turnover Costs**

The Trustee does not currently actively monitor the portfolio turnover costs of the assets. Investment manager performance is generally reported net of transaction costs, and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee receives some MiFID II reporting from their investment managers but does not analyse the information. LCP will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask managers to report on portfolio turnover costs explicitly. It may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

## 7.5 Manager Turnover

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

For open-ended funds, the Trustee will retain an investment manager unless:

- a. There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- b. The manager appointment has been reviewed and the Trustee is no longer comfortable that the manager can deliver the mandate.

## 8. The Realisation of Investments

The Trustee has delegated the responsibility for buying and selling the underlying investments to the investment managers. The day-to-day activities which the investment managers carry out on behalf of the Scheme are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

## 9. Compliance and Review of Statement

The Trustee, the investment managers and LCP each have duties to perform to ensure compliance with the Statement. These are:

The **Trustee** will review this Statement from time-to-time on the advice of LCP.

In line with the Occupational Pension Schemes (Investment) Regulations (2005), the Trustee is required to review the Statement at least every three years and without delay after any significant changes in investment policy.

The Trustee will review this Statement in response to any material changes to any aspects of the Scheme.

The **Investment Managers** will prepare quarterly reports to the Trustee which will be provided through LCP. These include:

- A valuation of all units held for the Scheme
- Records of all transactions together with a cash reconciliation
- A review of recent investment actions together with a summary of their current stated policy.

**LCP**, the consultants, will provide the advice needed to allow the Trustee to review and update this Statement.

**For and on behalf of Independent Trustee Services Limited as The Trustee of the Scheme**

**Date: September 2023**