

# CP Holdings Limited (1986) Retirement Benefits Scheme

## Statement of Investment Principles

**Barnett Waddingham LLP**

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## 1. Introduction

- 1.1. This is the Statement of Investment Principles for the CP Holdings Limited (1986) Retirement Benefits Scheme ("the Scheme"), as prepared by CP Holdings (Pensions) Limited, the Trustee of the Scheme ("the Trustee"). This statement sets down 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;
  - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
  - the Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019
- 1.2. In preparing this statement the Trustee has consulted CP Holdings Limited, (the "Employer"), and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. 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 Clause 50 of the Definitive Trust Deed & Rules, dated 26 September 2002. This statement is consistent with those powers.

## 2. Choosing investments

- 2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional adviser, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the Employer before amending the investment strategy.

## 3. Investment objectives

- 3.1. The Trustee has discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, 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;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustee has obtained exposure to investments that they expect 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 equities, bonds, cash, property, alternatives and annuity policies.
- 4.2. The Trustee does not intend to hold any Employer-related investment.

## 5. The balance between different kinds of investments

- 5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.
- 5.2. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.
- 5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

## 6. Risks

- 6.1. 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:

<b>Risk versus the liabilities</b>	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
<b>Covenant risk</b>	The creditworthiness of the Employer and the size of the pension liability relative to the Employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the Employer covenant.
<b>Solvency and mismatching</b>	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
<b>Asset allocation risk</b>	The asset allocation is detailed in the Appendix to this Statement, monitored on a regular basis by the Trustee and is reviewed following each actuarial valuation.
<b>Investment manager risk</b>	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
<b>Governance risk</b>	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement.
<b>ESG/Climate risk</b>	The Trustee has considered long-term financial risks to the Scheme and consider ESG factors, as well as climate risk, are potentially financially material and will continue to develop its policy to consider these factors, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
<b>Concentration risk</b>	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities. The Trustee seeks to minimise concentration risk by investing in a suitably diversified range of investments.
<b>Liquidity risk</b>	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
<b>Currency risk</b>	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

The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). Each investment manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.

## 7. Expected return on investments

- 7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.
- 7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustee meets the Scheme's investment managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

## 8. Realisation of investments

- 8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.
- 8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

## 9. Environmental, Social and Governance factors, voting and engagement

- 9.1. The Trustee has considered long-term risks to the Scheme and believes that Environmental, Social and Governance ("ESG") factors are financially material – that is, they have the potential to impact the value of the Scheme's investments from time-to-time. The Trustee therefore has a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments. The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes. The Trustee notes that this financial materiality will be assessed over the length of time until the benefits can be bought out with an insurer.
- 9.2. The Trustee has reviewed the approach to ESG of the Scheme's managers based on information provided by the managers, taking into account UN Principles for Responsible Investment scores where appropriate.

The Trustee is comfortable that the funds currently invested in by the Scheme are managed in accordance with its views on financially material factors, as set out in this policy. This position is monitored periodically, at least annually. As part of the monitoring process the Trustee is provided with updates on governance and engagement activities of the managers on ESG matters. The Trustee has the opportunity to meet the managers and question them on policies. The views set out below will be taken into account when appointing and reviewing managers.

- 9.2.1. **Passive gilts** - The Trustee does not believe there is scope for ESG issues to improve risk-adjusted returns within the Scheme's passive gilt holdings.
- 9.2.2. **Bulk annuities** – The buy-in policy is highly illiquid and its performance is directly related to that of a specified set of liabilities and so the Trustee does not believe there is scope for ESG issues to improve risk-adjusted returns.

## The exercise of voting rights

- 9.3. The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.
- 9.4. The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant where needed.
- 9.5. Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their investment consultant as necessary, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

## Engagement activities

- 9.6. The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.
- 9.7. The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

- 9.8. The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.
- 9.9. The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.
- 9.10. Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.
- 9.11. The Scheme's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.
- 9.12. The Scheme's investment consultant, Barnett Waddingham, is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.
- 9.13. The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.
- 9.14. In selecting and reviewing their investment managers, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.

## Non-financial matters

- 9.15. The Trustee does not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

## 10. Policy on arrangements with asset managers

### Incentivising alignment with the Trustee's investment policies

- 10.1. Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.
- 10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.
- 10.3. The Trustee carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints.



The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

- 10.4. In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustee.
- 10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

### Incentivising assessments based on medium to long term, financial and non-financial considerations

- 10.6. The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.
- 10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.
- 10.8. The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

### Method and time horizon for assessing performance

- 10.9. The Trustee monitors the performance of their investment managers over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.
- 10.10. The Scheme invests in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee.
- 10.11. The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.
- 10.12. The Trustee asks the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

### Portfolio turnover costs

- 10.13. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.
- 10.14. During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a

significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

### Duration of arrangement with asset manager

- 10.15. For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.
- 10.16. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

## 11. Agreement

- 11.1. 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 Scheme Actuary and the Scheme auditor upon request.

**Signed:**.....

**Date:**.....

**Signed:**.....

**Date:**.....

On behalf of CP Holdings Limited (1986) Retirement Benefit Scheme

## Appendix **Note on investment policy of the Scheme as at in relation to the current Statement of Investment Principles Scheme**

### 1. The balance between different kinds of investment

The Scheme's current asset allocation is 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, the Trustee's and Employer's attitude to investment risk and the need for diversification. The Trustee will monitor the asset allocation on a regular basis and may alter the allocation from time to time, after considering the same factors mentioned above.

<b>Fund</b>	<b>Allocation (%)</b>	<b>Allocation including Bulk annuity Policy (%)</b>
<b>Credit Portfolio</b>	<b>13.0</b>	<b>3.9</b>
LGIM Buy & Maintain Credit	13.0	3.9
<b>Liquidity Portfolio</b>	<b>14.0</b>	<b>4.2</b>
LGIM Sterling Liquidity Fund	14.0	4.2
<b>Gilts Portfolio</b>	<b>73.0</b>	<b>21.9</b>
LGIM All Stocks Index-Linked Gilts Fund	22.0	6.6
LGIM Over 5 Years Index-Linked Gilts Index	22.0	6.6
LGIM Over 15 Years Gilts Index	29.0	8.7
<b>Bulk Annuity Policy*</b>		<b>70.0</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*Estimate based on the value of the policy at date of bulk annuity purchase (£21.5m at 31 August 2017)

### 2. Choosing investments

The Trustee has appointed the following investment managers/insurance companies to carry out the day-to-day investment of the Scheme:

- Legal & General Investment Management Limited (LGIM); and
- Pension Insurance Corporation (PIC).

The investment managers are authorised and regulated by the Financial Conduct Authority. PIC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

The investment benchmarks and objectives for each investment manager are given below:

Investment Manager	Fund	Benchmark	Objective
LGIM	Sterling Liquidity Fund	Sterling Overnight Index Average	To provide capital stability and a return in line with money market rates whilst providing daily access to liquidity and providing an income. The fund seeks to maintain a AAA rating, which is the highest fund rating available.
	Buy & Maintain Credit	The fund does not have a benchmark	The fund aims to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality.
	All Stocks Index-Linked Gilts Index	FTSE Actuaries UK Index-Linked Gilts All Stocks Index	To track the performance of the FTSE Actuaries UK Index Linked Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.
	Over 5 Years Index-Linked Gilts Index	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index	To track the performance of the FTSE Actuaries UK Index Linked Gilts Over 5 Years Index to within +/-0.25% p.a. for two years out of three.
	Over 15 Years Gilts Index	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	To track the performance of the FTSE Actuaries UK Conventional Gilts Over 15 Years Index to within +/-0.25% p.a. for two years out of three.

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

### 3. Investments and disinvestments

The contributions by members and the employers and income received from the bulk annuity policy may not be sufficient to meet the Scheme's cash flow requirements. The Trustee may therefore disinvest some of the Scheme's investments from time-to-time as required.