P&O Princess Cruises Pension Scheme

The Chair's Statement

Introduction

The annual Chair's Statement covering the period 1 April 2019 to 31 March 2020 has been prepared by the Trustee of the P&O Princess Cruises Pension Scheme ("the Scheme") to demonstrate how the Scheme has complied with the governance standards introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015 in relation to:

- Providing a default investment arrangement for members (the 'default arrangement');
- Processing financial transactions promptly and accurately;
- Details and impact of charges and transaction costs borne by members;
- Assessment of the value members received from being a member of the Scheme; and
- Meeting the requirements for trustees' knowledge and understanding.

This statement relates to the Defined Contribution Section of the Scheme administered by Scottish Widows and the Additional Voluntary Contribution (AVC) benefits under the Defined Benefit Section of the Scheme administered by Standard Life. Both arrangements are closed to new joiners.

The Trustee believes that it has taken the necessary steps to ensure compliance with the governance standards.

A copy of this document is contained on a publicly accessible website and can be found at https://www.pocruises.com/legal-and-privacy/pensions.

Investment

General investment aims and objectives

The Trustee's main investment objectives are to:

- Provide members with a diversified fund range designed so members have the freedom to structure their investments to suit their individual risk, return, liquidity and funding requirements.
- Ensure that each individual fund option is suitably invested and managed to maximise the return commensurate with an acceptable level of risk.

The Trustee aims to meet these objectives by:

- Identifying appropriate investment managers.
- Providing a range of investment options which aim to meet members differing personal investment requirements throughout their membership and have sufficient investment choice to satisfy their differing risk appetites and risk profiles.
- Monitoring the investment funds that are made available to members.
- Setting a general investment policy but delegating the responsibility for selection of specific investments to the investment managers.
- Seeking advice, as appropriate, from the Scheme's advisers.

The default arrangement

DC Section

The Trustee designed and implemented a default arrangement for members who did not make an active investment decision when the DC Section opened on 1 June 2016. The default arrangement is the *drawdown focussed lifestyle strategy*.

The objective of the default arrangement is to generate capital growth over the long term through investing in a diversified portfolio that provides an appropriate balance between risk and return. The strategy invests in a diversified fund during the growth phase when members are further from retirement. In the five years prior to retirement, the default arrangement aims to reduce the volatility of the member's expected pension fund by partially switching some of the investments into bonds, gilts and cash gradually over the five-year period. At a member's target retirement date, there is a 70% allocation to a diversified fund, 15% allocation to bonds and 15% allocation to cash. The default arrangement is designed for those members looking to use their DC Section benefits to maintain investment growth at retirement age and move to a drawdown arrangement which allows members to take income as and when required.

The Trustee is required to review the default investment strategy at least every three years (or if there has been a significant change in the membership or investment policy). The last review was completed during this reporting period on 11 December 2019. In undertaking the review, the Trustee and its investment adviser assessed whether the default arrangement remained appropriate giving due consideration to its overall risk profile, asset allocation at retirement and a qualitative and quantitative assessment of the component funds, including the performance against their objectives. The Trustee considered these areas against the backdrop of an updated analysis of the profile of the membership to ensure the default arrangement continued to be aligned with the Trustee's overall objective for the default strategy (as stated above) and the expected needs of the majority of the membership.

The review concluded that the profile of the membership had not materially changed since the default arrangement was introduced in 2016 and the expected risk tolerance and retirement objectives remained the same. Additionally, the review noted that aside from the small number of members expected to retire over the next few years, the vast majority of members are predicted to have considerable Defined Contribution benefits at retirement and are therefore more likely (based on market trends) to enter into a drawdown arrangement at retirement and take an income as and when needed. This suggested that the asset mix at retirement which is aligned with entering into a drawdown arrangement remained appropriate. Additionally, the component funds had performed in line with (or exceeded) expectations and continued to be well rated by the Trustee's investment adviser.

Based on the findings from the review, the Trustee decided that the existing default arrangement remained appropriate and it was agreed that no changes were required.

The Trustee also gave some initial consideration to Environmental, Social and Governance (ESG) options within the context of Scottish Widows' bundled DC pension proposition and agreed to continue to monitor Scottish Widows' in this area with the view of reviewing this in more detail as its proposition develops over the coming year.

The next review of the default strategy is due to take place between July and December 2022 or earlier if there are any significant changes to the profile of the membership or the Trustee's investment policy in the meantime.

AVC arrangement

Whilst there was no default fund in place for members of the Defined Benefit Section of the Scheme who paid AVCs into the Standard Life arrangement, there was an investment change undertaken in 2013, whereby the Trustee decided to close a number of funds to new contributions. Members contributing into these funds had their contributions automatically redirected into the Standard Life Deposit and Treasury Pension Fund unless they made an active investment decision. Therefore, this fund is defined as a default arrangement for the purposes of this Statement and is identified as such in the 'Charges and transaction costs' section on page 4.

The Trustee reviewed the AVC funds (including the Standard Life Deposit and Treasury Pension Fund) in December 2019 using a similar framework to the review of the DC Section as described earlier. The review concluded that although there were no significant issues with the current arrangement with Standard Life, the arrangement is not optimal and the AVC assets would ideally be transferred to Scottish Widows in line with the DC Section of the Scheme. However, there were practical constraints around doing this, and further exploration would be undertaken during 2020.

Statement of Investment Principles

A copy of the Scheme's Statement of Investment Principles, including those relating to the default investment strategy, is included in Appendix C. The Statement of Investment Principles can also be found online at https://www.pocruises.com/legal-and-privacy/pensions.

Investment Monitoring

The Trustee delegates the detailed investment oversight to Scottish Widows and Standard Life, and it has separate specialist advisers providing specific investment advice and strategic guidance.

The Trustee reviews the net performance of the funds, including those underlying the default arrangements formally each quarter against their objectives and benchmarks.

On occasions, the Trustee may decide to replace an investment manager or make changes to the balance and content of individual asset classes if appropriate. No changes to any of the investment funds were made during the reporting period.

Financial transactions

The Trustee regularly monitors the core financial transactions of the Scheme. These include the investment of contributions, transfers into and out of the Scheme, fund switches and payments out of the Scheme.

DC Section

The Trustee delegates the administration of the DC Section of the Scheme to Scottish Widows. In previous reporting periods, the administrator was referred to as Zurich and this change reflects Scottish Widows' acquisition of Zurich which was effective from 1 July 2019. There have been no material changes to the platform on which the DC Section is run as a direct result of this change.

The Trustee has service level agreements (SLAs) in place with Scottish Widows. These are the Trustee's expectations for the promptness of processing administration tasks. The SLAs vary dependent on the task (ranging from one to two business days for time critical tasks such as investment switches and processing contributions and up to ten business days for non-time critical tasks such as more complex member enquiries).

Scottish Widows has processes in place to support meeting its SLAs such as a task logging system used to identify and prioritise core financial transactions, allocate tasks and manage workloads. Additionally, Straight Through Processing (STP) is used on all core transactions which helps ensure tasks are processed accurately and quickly.

Scottish Widows provides quarterly administration reports which includes details of performance against SLAs. This allows the Trustee to monitor performance against the SLAs at each quarterly Trustee meeting to ensure administration tasks (including core financial transactions) are being processed in a timely manner.

Scottish Widows has reported that 100% of time critical tasks were processed within the agreed SLAs during the period.

Service standards in relation to manually processed non-time critical tasks improved significantly over the reporting period and over 90% of tasks were completed within their SLAs during Q3 2019, Q4 2019 and Q1 2020.

There were no member complaints reported by Scottish Widows over the period.

In addition to monitoring administration performance, the Trustee also satisfied itself that core financial transactions were processed promptly and accurately by:

- Ensuring appropriate documentation was in place recording payments in and out of the Scheme.
- Reviewing the accuracy of the Scheme's common and conditional data on a regular basis to ensure that financial transactions are processed promptly and accurately.
- Ensuring Scottish Widows has in place appropriate internal processes and controls which includes the checking and reconciliation of investment and banking transactions.

In December 2019, The Trustee undertook a detailed review of Scottish Widows in conjunction with its advisers. This review assessed Scottish Widows' strengths and weaknesses in the areas of Business, Administration, Investment, Communications and Charges. The review concluded that Scottish Widows remained a strong pension provider within the UK market and it highlighted numerous relative strengths in its proposition against its peers. The Trustee was satisfied that Scottish Widows remains an appropriate choice of pension provider.

AVC arrangement

The Trustee adopts the same principles when monitoring the AVC arrangement with Standard Life. There were a very small number of limited administration tasks undertaken over the period, of which no issues were identified.

Wider oversight

In 2020 Willis Towers Watson undertook an independent review of the Scheme's governance processes and internal controls and confirmed that it is compliant with the Pensions Regulator's DC Code of Practice (July 2016). The Scheme is also compliant with the Code of Practice No. 5 in relation to reporting late payments of contributions and with the relevant legislation.

The Scheme's appointed auditors have audited the Scheme's accounts in relation to the period to which this statement relates.

Based on the above, the Trustee is satisfied that the Scheme's core financial transactions have been processed promptly and accurately during the Scheme year.

Member borne charges and transaction costs

The Total Expense Ratio (TER) applied to the funds available for selection by members of the Scheme are set out in the tables overleaf. TER is a measure of the costs associated with managing and operating an investment fund. These costs consist primarily of Annual Management Charges (AMC) and variable additional expenses such as trading, legal and auditor fees and other operational expenses.

Transaction costs are those incurred by the investment managers as a result of buying, selling, lending or borrowing investments and are usually taken into account via the unit price for each of the funds. The Financial Conduct Authority (FCA) has set out a specific method for providers and managers to calculate transaction costs and they are typically categorised as being explicit costs or implicit costs.

- **Explicit costs** are directly observable and include broker commissions and taxes.
- **Implicit costs** cannot be observed in the same way but occur, for example, where the price on placing a trade instruction is different to the price paid when the trade is executed. This can also lead to 'negative' transaction costs or small 'gains' where the price when placing a trade instruction is higher than the price when the actual trade is executed.

Default arrangement

The charges applied to the funds that make up the Scheme's default arrangement over the Scheme Year are as follows:

Fund		Fund charges					Transaction costs
		Annual Management Charge (AMC)		Additional Fund Expenses (variable)		Total Expense Ratio (TER)	
Default arrangement	SW Legal & General Diversified Fund	0.460% p.a.	+	0.010% p.a.	=	0.470% p.a.	- 0.0380%.
	SW Legal & General Pre-Retirement Fund	0.345% p.a.	+	0.000% p.a.	=	0.345% p.a.	0.0020%
	SW BlackRock Sterling Liquidity Fund	0.270% p.a.	+	0.000% p.a.	=	0.270% p.a.	0.0140%

Members are invested in these funds in varying proportions depending on their term to retirement. The maximum TER for the default arrangement is 0.470% p.a.

Alternative lifestyle strategies and self-select fund range

The charges applied to the self-select fund range (which are also component funds in the alternative lifestyle strategies) are as follows (please note the table only includes funds in which members of the Scheme have chosen to invest):

Fund		Fund charges					Transaction costs
		Annual Management Charge (AMC)		Additional Fund Expenses (variable)		Total Expense Ratio (TER)	
Self-select	SW Aquila 30/70 Currency Hedged Global Equity Index	0.330% p.a.	+	0.013% p.a.	=	0.343% p.a.	-0.0620%
	SW Legal & General Diversified Fund	0.460% p.a.	+	0.010% p.a.	=	0.470% p.a.	- 0.0380%.
	SW L&G Pre-Retirement Fund	0.345% p.a.	+	0.000% p.a.	=	0.345% p.a.	0.0020%
	SW BlackRock Sterling Liquidity Fund	0.270% p.a.	+	0.000% p.a.	=	0.270% p.a.	0.0140%
	SW Aquila Emerging Markets Equity Index	0.420% p.a.	+	0.060% p.a.	=	0.480% p.a.	-0.1780%
	SW Aquila Over 5 Years Index Linked Gilt Index	0.265% p.a.	+	0.004% p.a.	=	0.269% p.a.	0.0180%

Standard Life AVC policy

This is a closed AVC policy and the level of charges applying to the investment funds during the reporting period, including the Standard Life Deposit and Treasury Fund (classified as a default arrangement for the purposes of this statement) are set out in Appendix A.

Further note on transaction costs

Since 6 April 2015, all Trustee Boards in the UK have been required (insofar as they are able) to assess transaction costs and report on them in the chair's statement.

The Financial Conduct Authority (FCA) has established a defined methodology to calculate transaction costs. These requirements took effect from 3 January 2018 and investment managers are now obliged to report transaction costs using this methodology going forward.

In order to comply with the requirements, the Trustee has asked Scottish Widows and Standard Life for details of any transaction costs it is able to provide. Both providers have provided transaction costs incurred by members at a fund level and these details have been included in this statement. Total transaction costs have been calculated as a percentage of the average fund value over the reporting period.

There is currently limited information available for benchmarking the transaction costs, particularly as the standardised reporting format has only recently been made available. However, based on the information we do hold, the transaction costs reported during the period do not appear unreasonable and some of the funds have reported a negative transaction cost (net gain).

In future, the Trustee intends to work with its advisers to further benchmark and evaluate transaction costs once statistically viable market data is available.

Illustrations of costs and charges

The Trustee has taken into account the statutory guidance which requires trustees to provide an illustration comparing the cumulative effects of costs and charges on example members' funds.

The illustrations and corresponding information can be found in Appendix B.

Value for Members (VFM)

The Trustee is committed to ensuring that members receive value for the services that are provided under the Scheme, in particular the costs that are met by the members themselves, and keeps value for members in mind on an ongoing basis, including it as an item on the Scheme's risk register.

The Trustee undertakes an annual value for members assessment taking into account the requirements within the Pensions Regulator's DC Code of Practice with support from its advisers. In carrying out this value for members assessment, the Trustee considers the following areas which encompass the total services members receive: *scheme management*, *investment, charges*, *administration* and *communications*. The assessment approach is closely aligned to the Pensions Regulator's 'How to guide' for 'value for members' and the Trustee has taken the following steps in the assessment process:

- Identify what services the members pay for in the context *of investment, administration, communication* and *scheme governance*
- Assess the range and performance of the services members receive in each area based on expected member needs
- Benchmark the Scheme's charges against similar schemes in order to conclude from the assessment, does the Scheme offer good VFM?
- Document the assessment outcome and address any areas of poor value

This assessment concluded that the overall value provided to members continued to be excellent based on the services members receive for the charges incurred for the following reasons:

- Charges are competitive when compared with other similar types and size of pension arrangement
- The Trustee has a well-constructed fund range in place in which the underlying funds have performed in line with their respective benchmarks and within acceptable tracking errors over short-term and long-term periods.
- Stringent investment governance and monitoring has taken place over the period Including a detailed review of the investment fund options.
- Scottish Widows provides a range of bespoke communications and online tools to assist members with making appropriate choices.
- There has been a significant improvement in Scottish Widows' administration performance over the period.

AVC arrangement

The Trustee reviewed the AVC arrangement and concluded that the arrangement provided sufficient value for members based on the very limited services members require in relation to this arrangement. No material investment or administration issues were identified and charges were broadly in line with expectations based on the size of the arrangement.

However, the Trustee concluded that value would be improved by transferring the AVC assets to Scottish Widows in line with the DC Section of the Scheme. The Trustee noted that there were practical constraints around doing this, and further exploration would be undertaken during 2020.

Trustee knowledge and understanding (TKU)

The Trustee has a TKU process in place which enables the Trustee, together with the advice available to it, to properly exercise its functions as Trustee of the Scheme. The Trustee is satisfied that it has sufficient knowledge and understanding of the Scheme (including its Trust Deed and Rules and Statement of Investment Principles and documents setting out the Trustee's current policies), the law relating to pensions and trusts and the principles relating to the funding and investment of occupational schemes. The Trustee has met its knowledge and understanding duties during the reporting period and its approach to meeting the TKU requirements includes:

- A Board which includes an experienced professional Trustee, who attends regular external seminars and workshops.
- A structured induction process which is in place for new Trustee Directors. Upon joining the Trustee board, the new Trustee is taken through the relevant training options available to ensure they are equipped for their role. During the period there was one new Trustee Director appointed who is currently completing the induction process.
- A formal TKU assessment is undertaken via a questionnaire at least every three years or on the appointment of a new Trustee and training plans have been put in place. The latest TKU assessment took place during the 2018/19 Scheme Year and the Trustee has put in place training plans to ensure any knowledge gaps are filled. The Trustee undertakes more regular assessments of knowledge on at least an annual basis through activities such as its yearly assessment against the DC Code of Practice.
- All Trustee Directors have either completed or are in the process of completing the Pensions Regulator's trustee toolkit.
- Ensuring that the Trustee has a working knowledge through training of all key documents setting out the Trustee's current policies including the Trust Deed and Rules and current Statement of Investment Principles. The Trustee received specific training on the SIP and the new reporting requirements that came into effect from 1 October 2019.
- Throughout the year the Trustee has worked closely with the legal advisers as part of their role – both on the DC investment review but also the wider employer covenant challenges that have required attention.
- Training from its advisers on topical items is provided on a regular basis. Examples of training topics covered during the reporting period include sustainable investment, an overview of the Pensions Scheme's Bill, changes to the Statement of Investment Principles (as described above) and an update on governance regulations.
- All training and attendance at appropriate seminars are recorded via the Trustee training logs.
- During the reporting period both the legal advisers, pension advisers and Scottish Widows reported at quarterly meetings on relevant developments and discussed their implications with the Trustee.

On the basis of these factors the Trustee is satisfied that it has the combined knowledge and understanding which is needed in order to properly exercise its trustee functions.

Statement of compliance

On behalf of the Trustee of the P&O Princess Cruises Pension Scheme, I confirm that the Trustee and its advisers are of the view that the Scheme has met and exceeded the minimum governance standards as defined in the Occupational Pension Scheme (Charges and Governance) Regulations 2015 during the period 1 April 2019 to 31 March 2020.

The Trustee has also reviewed the requirements and expectations set out in the Pensions Regulator's DC Code of Practice (July 2016) as they relate to the Scheme and will continue to monitor adherence on an ongoing basis.

Signed

Date

24th September 2020

Chair
P&O Princess Cruises Pension Scheme

P&O Princess Cruises Pension Scheme

Appendix A – Standard Life AVCs

The AVC fund range with Standard Life and the accompanying charges are set out below. Please note the table only includes funds in which members of the Scheme have chosen to invest:

Default arrangement (for the purposes of this statement)

Fund		Fund charges					Transaction costs
		Annual Management Charge (AMC)		Additional Fund Expenses (variable)		Total Expense Ratio (TER)	
Default arrange-ment	Standard Life Deposit and Treasury Pension Fund	0.60% p.a.	+	0.01% p.a.	=	0.61% p.a.	0.0592%

Self-select AVC funds

Fund		Fund charges					Transaction costs
		Annual Management Charge (AMC)		Additional Fund Expenses (variable)		Total Expense Ratio (TER)	
	Standard Life Annuity Targeting Pension Fund	0.60% p.a.	+	0.01% p.a.	=	0.61% p.a.	0.1037%
	Standard Life At Retirement (Multi-Asset Universal) Pension Fund	0.60% p.a.	+	0.04% p.a.	=	0.64% p.a.	0.1917%
	Standard Life Deposit and Treasury Pension Fund	0.60% p.a.	+	0.01% p.a.	=	0.61% p.a.	0.0592%
	Standard Life Far East Pension Fund	0.60% p.a.	+	0.10% p.a.	=	0.70% p.a.	0.1313%
	Standard Life International Equity Pension Fund	0.60% p.a.	+	0.03% p.a.	=	0.63% p.a.	0.0970%
	Standard Life Long Corporate Bond Pension Fund	0.60% p.a.	+	0.01% p.a.	=	0.61% p.a.	0.1788%
	Standard Life Managed Pension Fund	0.60% p.a.	+	0.02% p.a.	=	0.62% p.a.	0.1109%
	Standard Life Property Pension	0.60% p.a.	+	0.03% p.a.	=	0.63% p.a.	0.1869%

	Fund						
	Standard Life Stock Exchange Pension Fund	0.60% p.a.	+	0.03% p.a.	=	0.63% p.a.	0.0964 %
	SI BlackRock World Ex UK Equity Tracker Pension Fund	0.60% p.a.	+	0.02% p.a.	=	0.62% p.a.	0.0045%
	SI BlackRock Managed (50/50) Global Equity Pension Fund	0.60% p.a.	+	0.02% p.a.	=	0.62% p.a.	0.0544%
	SI Ishares UK Equity Index Pension Fund	0.60% p.a.	+	0.01% p.a.	=	0.61% p.a.	0.1044%

There are a number of with-profits funds in which some members are invested. For these funds, there is no explicit charge, however these are taken into account when Standard Life calculates the annual bonus. Standard Life have confirmed transaction costs of 0.102% for the Pension With Profits Fund and 0.082% for the Pension Millennium With Profits Fund and the Pension Millennium With Profits 2006 Fund.

Appendix B – Illustration of costs and charges

The following tables have been produced by Scottish Widows to show the compounding effect of costs and charges over time based on a range of funds available under the Scheme. The Trustee is required to include this information in the Chair's Statement and the relevant statutory guidance from the DWP has been taken into account when producing these illustrations.

Please read the tables in conjunction with the notes underneath. It is also important to note that the illustrations are purely shown to convey the impact of costs and charges over time and are in no way guarantees of the level of returns that may be achieved through investing in the representative funds.

Example A: Impact of costs and charges of investing in the Drawdown Focussed Lifestyle Strategy (the default arrangement under the Scheme)

This illustration is based on an active member of the Scheme with total contributions of £2,025 per month being paid. The starting DC fund value is £46,000. We have shown a range of ages because the charges and expected growth rates change as a member approaches retirement due to the proportion of assets invested in each component fund.

Years	Age 40		Age 50		Age 55	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
1	£ 70,200	£ 69,900	£ 70,200	£ 69,900	£ 70,200	£ 69,900
3	£ 119,000	£ 117,000	£ 119,000	£ 117,000	£ 118,000	£ 117,000
5	£ 168,000	£ 165,000	£ 168,000	£ 165,000	£ 166,000	£ 164,000
10	£ 293,000	£ 286,000	£ 290,000	£ 283,000	-	-
15	£ 422,000	£ 406,000	-	-	-	-
20	£ 548,000	£ 521,000	-	-	-	-

Notes:

- Projected pension account values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- Starting Fund: £46,000. Starting Contributions: £2,025pm. Invested in the Drawdown Focussed Lifestyle strategy.
- This table shows the development of the projected pot size over time for a sample of ages assuming the pension pot is invested in the Default Lifestyle Strategy.
- For the Default Lifestyle Strategy, the development of the projected pension pot depends on the member's current age because the funds change as the member approaches retirement.
- Retirement is assumed to be at age 60.
- Inflation is assumed to be 2.5% each year.
- Gross contributions of £2,025 per month are assumed from the start of the projection to retirement and are assumed to increase in line with inflation at 2.5% per year.
- Values shown are estimates and are not guaranteed.

- For the default lifestyle strategy, the projected growth rate varies over time as the funds invested in change.
- The real projected growth rate is between 0.0% and 0.3% above inflation depending on the proportion invested in each component fund.

Example B: Impact of costs and charges of investing in a range of self-select funds

This illustration is based on an active member of the Scheme with total contributions of £2,025 per month being paid. The starting DC fund value is £46,000. As these are single funds, there is no variation in expected growth rates or charges over time. Therefore, we have shown the effect over a 20 year period broadly based on the youngest member of the Scheme.

Years	BlackRock Sterling Liquidity Fund		SW Aquila 30/70 Currency Hedged Global Equity Index Fund		SW Aquila IL Over 5 Year Gilt Index Fund		SW Aquila Emerging Markets Equity Index Fund	
	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
1	£ 69,100	£ 68,900	£ 71,000	£ 70,800	£ 68,800	£ 68,700	£ 71,000	£ 70,800
3	£ 114,000	£ 113,000	£ 122,000	£ 121,000	£ 113,000	£ 112,000	£ 122,000	£ 121,000
5	£ 158,000	£ 157,000	£ 176,000	£ 174,000	£ 156,000	£ 154,000	£ 176,000	£ 173,000
10	£ 263,000	£ 258,000	£ 320,000	£ 313,000	£ 255,000	£ 251,000	£ 320,000	£ 311,000
15	£ 360,000	£ 352,000	£ 478,000	£ 464,000	£ 346,000	£ 338,000	£ 478,000	£ 458,000
20	£ 450,000	£ 437,000	£ 652,000	£ 627,000	£ 428,000	£ 416,000	£ 652,000	£ 617,000

Notes:

- Projected pension account values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- Starting Fund: £46,000. Starting Contributions: £2,025pm. Invested in self-select funds.
- Retirement is assumed to be at age 60.
- Inflation is assumed to be 2.5% each year.
- Gross contributions of £2,025 per month are assumed from the start of the projection to retirement and are assumed to increase in line with inflation at 2.5% per year.
- Values shown are estimates and are not guaranteed.
- The real projected growth rates for each fund are as follows:
  - SW Aquila 30/70 Curr Hdg Global Equity Fund: 1.9% above inflation
  - SW BlackRock Sterling Liquidity Fund: 1.5% below inflation
  - SW Aquila IL Over 5 Year Gilt Index Fund: 2.0% below inflation
  - SW Aquila Emerging Markets Equity Index Fund: 1.9% above inflation

Appendix C: Statement of Investment Principles

Statement of Investment Principles – P&O Princess Cruises Pension Scheme DC Section

(September 2020)

Introduction

1 This document describes the defined contribution ('DC') investment policy pursued by the Trustee of the P&O Princess Cruises Pension Scheme (the "Scheme").

2 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme operates a Defined Benefit (DB) Section (with an attaching money purchase AVC policy) which is closed to future accrual and a DC Section which was set up from 1 June 2016 for active members of the DB Section as at 31 May 2016. The DC Section is open to future contributions for this population but the Scheme is fully closed to new hires. This document purely relates to the DC elements of the Scheme.

3 The Scheme is a registered pension scheme under the Finance Act 2004.

4 The DC Section is operated though a bundled provider, Scottish Widows, who provides administration, investment and communication services.

5 There is an AVC policy with Standard Life which enabled members of the DB Section to pay additional contributions on a money purchase basis. This policy closed to contributions from 1 June 2016.

6 The purpose of this Statement is to document those investment principles, guidelines and procedures which are appropriate for the Scheme, in a manner consistent with the requirements of the Pensions Act 1995 ("the Act") and the Pensions Act 2004 ("the 2004 Act").

7 The Scheme's Trustee ("the Trustee") has received advice from its investment adviser (Willis Towers Watson) and the Company has been consulted regarding this Statement as required by the Act.

8 When choosing investments, the Trustee and the Investment Managers, to the extent delegated, are required to have regard to the criteria for investment set out in the Occupations Pension Scheme (Investment) Regulations 2005 and the principles contained in this statement.

9 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed investment managers, which may include an insurance company or companies. The Investment Managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

10 The Pensions Regulator has a number of regulatory tools, including issuing Codes of Practice to enable it to meet its statutory objectives. Codes of Practice provide practical guidelines on the requirements of pensions legislation. This document has been drafted in the light of the DC Code of Practice and specifically its recommendations relating to the content of Statements of Investment Principles generally.

Investment objectives

11 The Scheme's main investment objectives are:

- To ensure the individual fund options are suitably invested and managed to maximise the return commensurate with an acceptable level of risk.

- To provide members with a diversified a range of investment options designed to give members the freedom to structure his/her own investment policy to suit his/her individual risk, return, liquidity and funding requirements.

Investment policy

12 The Trustee's policy is to seek to achieve its investment objectives through offering a suitable mixture of asset classes and funds. Pooled funds are made available across the main asset classes, reflecting the changing requirements of members as they progress towards retirement.

13 The Trustee makes available three lifestyle strategies where members' investments are initially allocated to a passively implemented diversified growth fund and are progressively switched into lower risk investments as retirement approaches. Each lifestyle strategy is focussed towards a different retirement outcome – annuity purchase, cash withdrawal and drawdown, and reflect these target outcomes in their asset allocations at retirement.

14 In moving members automatically into the DC Section, the Trustee had to have in place a default investment option for members who did not wish to make an investment decision. The Trustee has selected the **drawdown focussed** lifestyle strategy as the Scheme's default strategy. The objective of this lifestyle strategy is to generate capital growth over the long term through investing in a diversified portfolio that provides an appropriate balance between risk and return. In the 5 years prior to retirement, the strategy aims to reduce the volatility of the member's expected pension fund by investing in bonds and cash. This option is designed mainly for members looking to use their retirement account to maintain investment growth at retirement age and move to a drawdown arrangement which allows members to take income as and when required. At a member's target retirement date, there is a 70% allocation to a passively implemented diversified growth fund, 15% allocation to bonds and 15% allocation to cash.

15 In designing both the default strategy and the other investment options under the Scheme, the Trustee in conjunction with their investment advisers gave in-depth consideration to the Scheme's demographic profile and the retirement outcome needs and risk tolerance of the membership. Due consideration was also give to charge cap compliance.

Risk management

16 The Trustee recognises a number of risks involved in the investment of assets of the Scheme, including:

- **Capital risk** – the risk that the value of the investment will fall in value over any period of time. The Trustee has made available a cash fund for the purpose of managing this risk.

- **Inflation risk** – the risk that the contributions fail to provide an adequate amount of benefit. This could be by failing to achieve an adequate amount of return in excess of price inflation commensurate with the term of investment. The Trustee has made available equity funds for the purpose of managing this risk.

- **Manager risk** - addressed through ongoing monitoring of the Managers as set out in on page 5.

- **Pension conversion risk** – the risk that the value of a member's account does not reflect the change in the cost of purchasing an annuity at retirement. The Trustee has made available an index-linked bond fund (for those members wanting an annuity that increases during retirement) and a Pre-Retirement Fund for the purpose of managing this risk.

- **Currency risk** – where members invest in funds with an exposure to overseas securities, there will be an element of currency risk as these securities are converted back into Sterling. The Global Equity 30/70 Index Fund has an element of currency hedging to address this risk.

- **Contribution shortfall risk** – the risk that members do not contribute sufficiently to the Scheme and are therefore left with an inadequate pension at retirement. This is a difficult risk for the Trustee to address as all members' circumstances will be different, and most members will have significant DB service within the Scheme. However, this risk is expected to be immaterial in the light of the contributions made by the sponsoring employers on behalf of the members.

- **Political risk** - the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

- **Liquidity risk** – the risk that assets are not easily realisable such that cash is not readily available to meet cash flow requirements. The Trustee has had regard to this in selecting appropriate funds.

17 The Trustee continues to monitor these risks on a regular basis.

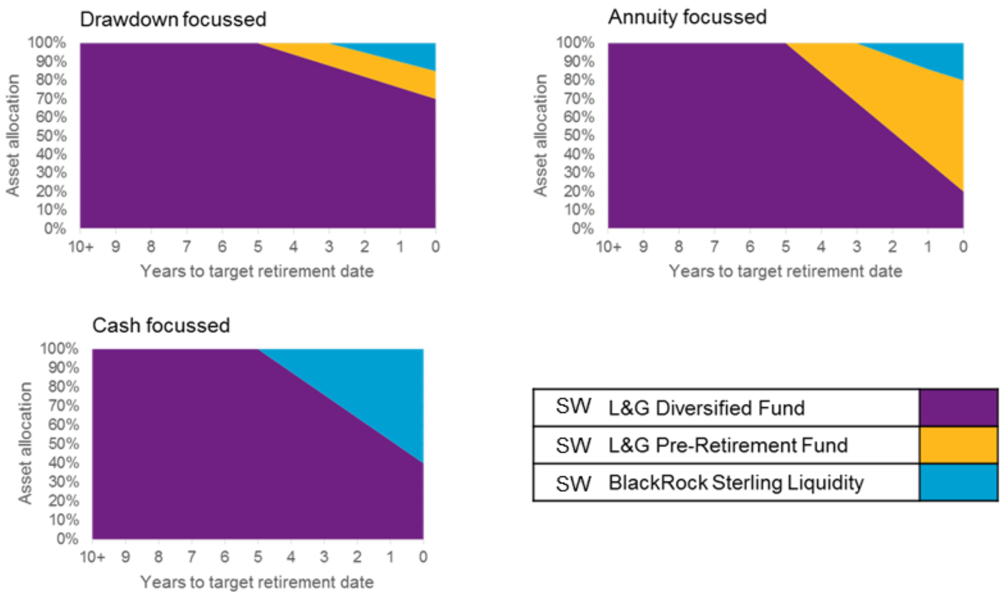
Member investment options

18 Based on the Trustee's investment objectives, the Trustee has selected a range of investment options available to members. Contributions are invested with BlackRock and Legal & General Investment Management (LGIM) through the bundled arrangement with Scottish Widows which aim to track the performance of their respective benchmarks.

19 The fund options are shown in the table overleaf:

Asset class	Fund	Objective and Benchmark	Total Annual Charge
Diversified	SW Legal & General Diversified CS2	The investment objective of the fund is to provide long-term investment growth through exposure to a diversified range of asset classes	0.470%
Equities	SW Aquila 30/70 Currency Hedged Global Equity Index CS1	This fund invests primarily in equities, both in the UK and overseas markets. The fund has approximately 30% invested in the shares of UK companies, 60% in developed markets, the remaining 10% is invested into emerging market equities. Any non-sterling exposure is hedged back to sterling.	0.340%
	SW Aquila Emerging Markets Equity Index CS1	The fund aims to achieve a return consistent with the MSCI Global Emerging Markets Index	0.480%
Fixed Interest	SW L&G Pre-Retirement CS1	The fund aims to invest in assets that reflect the investments underlying a typical non inflation linked pension annuity product. The fund invests in the L&G Over 15 years Gilts Index fund and the L&G AAA-AA-A Corporate Bond Over 15 year Index fund. The mix between the funds is reviewed regularly.	0.345%
Index-linked	SW Aquila Index-Linked Over 5 Year Gilt Index CS1	This fund invests in UK government index-linked securities (index-linked gilts) that have a maturity period of 5 years or longer. The fund aims to achieve a return consistent with the FTSE UK Gilts Index-Linked Over 5 Years Index, which is widely regarded as the benchmark for UK pension fund investment in the longer dated end of the UK index-linked gilt market.	0.269%
Cash	SW BlackRock Sterling Liquidity CS1	The fund aims to achieve an investment that is in line with wholesale money market short-term interest rates. Specifically, the fund will aim to better the return of Seven Day LIBID before fees.	0.270%

Details of the three lifestyle strategies are contained below:



Legacy AVCs

20 There is a legacy AVC policy with Standard Life which closed to contributions from 1 June 2016. The funds are managed by BlackRock and Standard Life. The total charges for these funds range from 0.60% p.a. to 1.09% p.a.

Fee basis

21 Members bear the management charges on the funds in which they invest which cover the provision of administration, communication and investment services. These fees are charged by an adjustment to the unit prices within the funds, calculated daily on the value that day. The Trustee believes the charging structure is appropriate and in line with standard market practice.

22 Under this fee structure, investment Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

23 The Trustee reviews the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover, including regular engagement with Investment Managers on this subject and through the receipt of costs and charges reporting. There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold by Investment Managers) which the Trustee adheres to. The Trustee, with the help of the Investment Consultant, will monitor that the level of portfolio turnover remains appropriate in the context of the Investment Manager's strategy and the Scheme's investment strategy.

Monitoring and reviewing investments

24 The Trustee will regularly monitor Scottish Widows and Standard Life (as the investment platform providers) and the underlying managers to satisfy itself that all parties continue to carry out their work competently, cost-effectively and have the appropriate knowledge and experience to manage the DC investments of the Scheme.

Monitoring investment performance

25 The funds the Trustee has made available to members through the Scottish Widows platform are all passively managed index tracking funds (with the exception of the Cash Fund and the Diversified Fund). The Trustee receives regular performance monitoring data from Scottish Widows on a quarterly basis. Due to the passive nature of the funds, the Trustee will monitor investment performance insofar as to ensure they are tracking the relevant indices within a reasonable level of tolerance which will be determined by the investment adviser. Any tracking errors outside of the tolerance level will be raised with Scottish Widows in the first instance. If a fund continually fails to meet its benchmark over a period of time, the Trustee reserves the right to replace the fund with an appropriate alternative.

The Trustee undertakes qualitative monitoring of the Diversified Fund as it involves an element of strategic asset allocation albeit within a passive fund framework.

Reviewing the investment options under the Scheme

26 The Pensions Regulator expects trustees to regularly review their investment fund ranges and consider the demographics of the membership when doing so.

27 The Trustee undertook a review of the Scheme's investment options including the default strategy in December 2019 and concluded that no changes were required. The next review is scheduled to take place in 2022, or earlier if the need arises.

Investment manager monitoring

28 The continuing suitability of the Scheme's investment managers will be reviewed by the Trustee at least annually. The review will be based on the results of the Trustee's regular monitoring of the Investment Managers' performance and investment processes and their compliance with the requirements of the Pensions Act concerning diversification and suitability of investments, where relevant. Scottish Widows and Standard Life have been provided with a copy of this Statement.

Sustainable investing

29 The Trustee takes account of financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within a risk management framework, which takes account of members' investment time horizons and objectives. The Trustee considers sustainable investment factors, such as (but not limited to)

those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework.

30 The Trustee's policy is that day-to-day decisions relating to the investment of the Plan's assets is left to the discretion of the investment managers. This includes consideration of all financially materially factors, including ESG-related issues where relevant. The Trustee explores these issues with its advisers to understand how the investment managers exercise these duties in practice.

31 When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with their adviser, look to take account of the approach taken by investment managers with respect to sustainable investing including engagement and voting policies where relevant.

32 The Trustee monitors asset managers' sustainable investment practices, including the approach to ESG integration within the investment process through desk-based research.

33 Member views on non-financial matters are not currently taken into account.

Rights attaching to investments

34 The Trustee's policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers, via their adviser, to comply with the UK Stewardship Code or explain where they do not adhere to this policy.

Relationship with investment managers

35 The Trustee uses different managers to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. These considerations also apply in the appointment process of new investment managers and arrangements.

36 To maintain alignment, Investment Managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis to ensure managers are aware of the Trustees' expectations regarding how the Scheme's assets are being managed.

37 Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager to ascertain the reasons for this and whether closer alignment can be achieved. This monitoring process includes, but is not limited to, specific consideration of the sustainable investment/ESG characteristics of the fund and the managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the Trustee may consider

alternative options available in order to consider terminating and replacing the Investment Manager.

38 For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee may select certain investment funds where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making.

39 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Compliance and review of this statement

40 The Trustee will monitor compliance with this Statement annually.

41 The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its membership profile and the attitude to risk of the Trustee, which it judges to have a bearing on the stated investment policy.

42 This review will occur no less frequently than every three years or at the time of any changes to the fund range. Any such review will be based on written expert investment advice and the Principal Company will be consulted.