

Defined Benefit (DB) Implementation Statement

Covering period 1 April 2021 – 31 March 2022

Introduction

On 22 June 2021, Ross Trustees Services Limited (“Ross Trustees”) was appointed as the professional corporate sole trustee of the P&O Princess Cruises Pension Scheme (the “Scheme”). Prior to this date, the Scheme was governed by an alternative corporate trustee, P&O Princess Cruises Pension Trustee Limited. References to the “Trustee” within this Statement relate either to the Ross Trustees or the P&O Princess Cruises Pension Trustee Limited, as appropriate.

This document is the Annual Implementation Statement (the “Statement”) prepared by the Trustee of the Scheme covering the year 1 April 2021 to 31 March 2022 (the “Scheme Year”). The purpose of this Statement is to:

- detail any reviews of the Statement of Investment Principles (“SIP”) the Trustee has undertaken, and any changes made to the SIP over the year as a result of the review;
- set out the extent to which, in the opinion of the Trustee, the Scheme’s SIP has been followed during the year;
- describe the voting behaviour by, or on behalf of, the Trustee over the year; and
- set out the extent to which, in the opinion of the Trustee, the engagement policy under the SIP has been followed during the year.

This Statement relates to the Defined Benefit Section (“DB Section”) of the Scheme, excluding the Additional Voluntary Contribution benefits under the DB Section. A separate statement has been produced in relation to the Defined Contribution (“DC”) assets.

The Scheme makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focussing on areas of maximum impact.

In order to ensure that investment policies set out in the SIP are undertaken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some responsibilities. In particular, the Trustee has appointed a Fiduciary Manager, Towers Watson Limited (“WTW”), to manage the Scheme’s DB Section on a discretionary basis. The Fiduciary Manager’s discretion is subject to guidelines and restrictions set by the Trustee. So far as is practicable, the Fiduciary Manager considers the policies and principles set out in the Trustee’s SIP.

A copy of this implementation statement has been made available on the following website:

<https://www.pocruises.com/legal-and-privacy/pensions>

Review of and changes to the SIP – DB Section

No changes were made to the SIP during the year. The relevant SIP for this statement is therefore the SIP dated September 2020.

Adherence to the SIP – DB Section

Investment objective

As outlined in the SIP, the Trustee has three key objectives for investing the DB Section assets:

- To ensure the security, quality and profitability of the portfolio
- To limit the risk of the assets failing to meet the liabilities over both the short- and long-term
- To minimise the long-term costs of the Scheme by maximising the return on assets subject to the previous objectives.

No changes were made to these objectives during the year.

Investment strategy

The Trustee has received advice on an investment strategy aimed at maximising the chances of achieving its objectives. The investment strategy was reviewed as at July 2021, based on the finalised results from the 2019 triennial actuarial valuation at which point the Trustee agreed to retain the current target return (which reflected de-risking activity undertaken during 2020). This position will be reviewed in further detail with the results of the 2022 triennial actuarial valuation. The Trustee monitors progress relative to its objectives on a quarterly basis as outlined below.

The Trustee believes in diversification and the Scheme's portfolio is built using a diverse range of return-seeking and secure income assets and a dedicated allocation to liability driven investments which seek to match the sensitivity of the Scheme's liabilities to inflation and interest rates in line with the policies set out in the SIP.

Throughout the year, implementation of this strategy including the realisation of investments was delegated to the Fiduciary Manager who managed the balance of these investments within guidelines set by the Trustee; including asset allocation, manager diversification, and foreign currency exposure.

The Fiduciary Manager's guidelines were updated to formally document the current target return and associated parameters (having previously been temporarily suspended pending finalisation of the 2019 triennial actuarial valuation). The Fiduciary Manager is required to report any breach of these guidelines to the Trustee. No breaches were reported during the year.

The Trustee considers that the balance of investments held and the approach to managing risk is in the best interests of members in order to mitigate downside risk to the funding position of the Scheme whilst helping the Scheme to achieve its ultimate objective over an appropriate time horizon.

In order to ensure appropriate incentivisation and alignment of decision-making between the Trustee and the Fiduciary Manager, the Fiduciary Manager is subject to a number of obligations set out in its contractual arrangements with the Trustee and the Fiduciary Manager is aware of and gives effect to the principles set out in the Trustee's SIP. The Fiduciary Manager acted in accordance with these obligations throughout the year.

The Trustee's investment strategy seeks to outperform a benchmark based on a projection of the Scheme's liability cashflows. The liability benchmark is updated following each actuarial valuation, and when there is any significant change to the structure of the Scheme's liabilities. The liability benchmark was last updated in October 2021 following the finalisation of the 2019 actuarial valuation.

The Fiduciary Manager monitored the Scheme's funding position daily via its Asset and Liability Suite software and reviewed the Scheme's investments and managers on a regular basis throughout the year to ensure that the investment strategy remained consistent with the Scheme's objectives. On a quarterly basis, the Trustee reviewed the Scheme's asset allocation, funding position and progress relative to the journey plan (the projected path to achieve the Scheme's overall long-term objective), and measures of the expected return and risk of the Scheme's portfolio, to ensure that these remained broadly consistent with the Scheme's objectives.

The Trustee has a policy to ensure that the Scheme's cashflow requirements can be readily met without disrupting its investments. Throughout the year, the Fiduciary Manager regularly monitored the level of cash in the Scheme, and cashflows into / out of the Scheme to ensure that there were enough assets in readily realisable investments to meet the Scheme's requirements without disrupting its investments. The Fiduciary Manager can adjust the Scheme's allocation to cash when necessary within guidelines set by the Trustee. The Trustee monitored the liquidity of the Scheme's portfolio and cashflows into and out of the Scheme on a quarterly basis.

Investment managers

As set out above, the Trustee has delegated responsibility to the Fiduciary Manager to implement the Trustee's agreed investment strategy, including making certain decisions about investments (including asset allocation and manager selection) in compliance with Sections 34 and 36 of the Pensions Act.

Throughout the year, the Fiduciary Manager regularly monitored the performance of the Scheme's investment managers. Performance was monitored relative to an appropriate market benchmark where one was available or an appropriate return objective where a market benchmark was not available. In addition, the Fiduciary Manager assessed the performance of the Scheme's investment managers relative to peers and in the context of the prevailing market environment. Throughout the year, the Fiduciary Manager and Trustee focussed their assessment of investment manager performance on the long-term, consistent with the Trustee's position as a long-term investor.

On a forward-looking basis, past performance is only one input into the Fiduciary Manager's assessment of an investment manager, which relies predominantly on research views based on a range of qualitative and

quantitative factors, including the consideration of Sustainable Investing (“SI”) / Environmental, Social and Governance (“ESG”) factors as outlined below. Whilst there were some changes to the underlying investment managers, no managers were terminated based on short-term performance alone. Consistent with the Scheme’s long investment time horizon, the Trustee seeks to be a long-term investor and the Fiduciary Manager has appointed managers (in most cases) with the expectation of a long-term relationship. This in turn allows investment managers to take a longer-term approach to investing, including engagement with issuers of debt and equity, with a view to improving investment outcomes over the long-term. As at the end of the year, the Scheme was invested in 9 investment funds and the average tenure of the Trustee’s investments in these funds was 4 years.

The Trustee received quarterly monitoring reports from the Fiduciary Manager during the Scheme Year. Performance shown in these reports was based on performance reporting provided by the Scheme’s Independent Performance Measurer, State Street. These reports were included for scrutiny and discussion at the Trustee’s quarterly meetings. The reports included details of short-, medium- and longer-term performance relative to benchmarks/targets for all funds as well as commentary on an exceptions’ basis regarding performance with significant deviation from benchmark/target. Throughout the Scheme Year, the Trustee used these reports as an input into its ongoing assessment of the Fiduciary Manager’s performance. Like the approach taken with the Scheme’s underlying investment managers, the Trustee appointed the Fiduciary Manager with the expectation of a long-term relationship and therefore takes a long-term approach to its assessment of the Fiduciary Manager’s performance.

Manager selection, de-selection and monitoring

As part of its manager selection and ongoing oversight processes, the Fiduciary Manager considers the level of fees and the type of fee structures used by each manager (including a consideration of the alignment of interests created by certain fee structures).

The Fiduciary Manager considers several factors including the asset class / investment strategy, the way in which the strategy is implemented (e.g., active management or passive benchmark tracking), and fee benchmarking relative to peers. The majority of the Scheme’s investment managers were 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. The exceptions to this was in the area of Secure Income Assets (SIAs) where a minor part of the underlying investment managers’ remuneration was based on its performance over an appropriate time horizon. The use of performance fees for these types of investments (where manager skill is a key driver of expected returns) is quite common. The Trustee and Fiduciary Manager recognise the incentives created by such fee structures and are comfortable with them given the highly active nature of these individual strategies, and in the context of the Scheme’s wider investment portfolio where the aggregate use of these fee structures is very limited

During the year, the Fiduciary Manager reviewed and reported to the Trustee on the total fees and costs incurred by the Scheme through its investments. As part of its review and reporting on the Scheme’s costs, the Fiduciary Manager also reported to the Trustee on the costs associated with portfolio turnover, including a consideration of whether experienced turnover within investment strategies was consistent with the

individual manager's expectations and within the Fiduciary Manager's expectations given its knowledge and understanding of the asset class and peers.

The Fiduciary Manager incorporates an assessment of these factors in its manager research and portfolio management processes on an ongoing basis and this was the case throughout the year. The Trustee has agreed to monitor such matters on a regular basis using reporting provided by the Fiduciary Manager and has deemed that annual monitoring is enough.

The Fiduciary Manager is also responsible for managing the sustainability of the portfolio and how ESG factors are reflected.

Consistent with the Trustee's view that ESG factors can have a significant impact on investment returns, particularly over the long-term, the Fiduciary Manager believes that SI forms the cornerstone of successful long-term investment and has fully embedded the consideration of ESG factors in its processes. As a result, the Trustee believes that the incorporation of ESG factors is in the best long-term financial interests of its members. The Trustee incorporates an assessment of the Fiduciary Manager's performance in this area as part of its overall assessment of the Fiduciary Manager's performance.

The Fiduciary Manager's process for selecting, monitoring and de-selecting managers explicitly and formally includes an assessment of a manager's approach to SI (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). Where ESG factors are particularly influential to outcomes, the Fiduciary Manager engages with investment managers to improve their processes.

Industry wide / public policy engagement

As mentioned in the SIP, the Fiduciary Manager has partnered with EOS at Federated Hermes ("EOS") for a number of years to enhance its stewardship activities. One element of this partnership is undertaking public policy engagement on behalf of its clients (including the Trustee). This public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. The Fiduciary Manager represents client policies/sentiment to EOS via the Client Advisory Council, of which its Head of Stewardship currently chairs. It applies EOS' services, from public policy engagement to corporate voting and engagement, to several of its funds. Some highlights from EOS' activities over 2021:

- Engagements with over 1,200 companies on a total of 4,154 issues and objectives representing assets under advice of \$1.64tn.
- 64 responses to consultations or proactive equivalents and 71 discussions with relevant regulators and stakeholders.
- Voting recommendations in relation to over 128,000 resolutions, with over 20,000 being against management.

- Active participation in a number of stewardship initiatives including Climate Action 100+, PRI, Investor Alliance for Human Rights and the International Corporate Governance Network.

The Fiduciary Manager is also engaged in a number of industry wide initiatives and collaborative engagements including:

- Becoming a signatory to the 2020 UK Stewardship Code in the first wave;
- Co-founding the Net Zero Investment Consultants Initiative with eleven other investment consultants in 2021, with a commitment across its global Investment business;
- Joining the Net Zero Asset Managers Initiative in 2021, committing 100% of its discretionary assets;
- Being a signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee;
- Being a member of and contributor to the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC);
- Founding the Coalition for Climate Resilient Investment (with the World Economic Forum);
- Co-founding the Investment Consultants Sustainability Working Group; and
- Continuing to lead collaboration through the Thinking Ahead Institute and Willis Research Network.

Company level engagement and rights attached to investments (including voting)

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager, and in turn to the Scheme's investment managers. The day-to-day integration of ESG considerations and stewardship activities (including voting and engagement) are delegated to the Scheme's investment managers.

Through the engagement undertaken by the Fiduciary Manager, the Trustee expects investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital as applicable to their mandates. The Fiduciary Manager considers the investment managers' policies and activities in relation to ESG and stewardship both at the appointment of a new manager and on an ongoing basis. The Fiduciary Manager engages with managers to improve their practices and may terminate a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the Scheme Year.

The Scheme is invested across a diverse range of asset classes which carry different ownership rights, for example fixed income whereby these holdings do not have voting rights attached. Therefore, voting information was only requested from the Scheme's equity managers.

During the year, the Scheme's equity holdings were accessed via one pooled fund:

- Towers Watson Core Diversified Fund - seeks to provide cost effective diversification by making extensive use of Willis Towers Watson's innovative research into passive and smart beta (i.e., ways to get cheaper and more liquid exposure to some traditionally actively managed strategies) opportunities across multiple asset classes and markets, including allocations to equity pooled funds.

The table below sets out a summary of the voting within the Towers Watson Core Diversified Fund and a summary of the most significant votes. The votes selected are determined by the weight within each company. This data represents activity over the Scheme Year and has been provided by the Fiduciary Manager.

Voting activity	Number of votes eligible to cast: 4,006 Percentage of eligible votes cast: 92% Percentage of votes with management: 86% Percentage of votes against management: 13% Percentage of votes abstained from: 1% Of the meetings the manager was eligible to attend, the percentage where the manager voted at least once against management: 62% Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 3%			
Most significant votes cast	Company	Goodman Group Underlying investment manager: Active Chinese Equity	Sydney Airport Underlying investment manager: Passive real assets	usNet Services Ltd. Underlying investment manager: Passive real assets
	Size of holdings	0.13%	0.11%	0.05%
	Resolution	Advisory Vote to Ratify Named Executive Officers' Compensation	Approve Grant of 407,727 Rights to Geoff Culbert	Elect Robert Milliner as Director
	How the manager voted	Against – vote was not communicated with management in advance	Against – vote was not communicated with management in advance	Against – vote was not communicated with management in advance
	Rationale for voting decision	This item does not merit support as the manager has concerns with the proposed remuneration structure for senior executives at the company	Concerns about remuneration committee performance	Concerns related to approach to board gender diversity
Rationale for being considered	"Significant votes" identified as follows: 1. All votes on environmental related shareholder proposals. 2. All votes on compensation proposals where we voted against the company management's recommendation. 3. All against votes on the re-election of board members due to poor ESG			

	a significant vote	performance of their companies. 4. All against votes on the re-election of board members due to poor compliance with the local corporate governance score of their companies. 5. All against votes on the re-election of board members due to a lack of gender diversity on board.		
	Outcome of vote	58% For, 42% Against	For	For
	Lessons learned/ future implications	Where appropriate we will contact the company to explain our voting rationale and conduct further engagement.		
Use of proxy voting	Within the Towers Watson Investment Management Global Equity Focus Fund, EOS provides voting recommendation to enhance engagement and help achieve responsible ownership. EOS's voting recommendations are informed by its extensive research and experience in the area of stewardship as well as its long-term engagement activities with companies. The underlying managers use ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. The underlying manager must provide an explanation and note their rationale when they choose to vote differently to the recommendation.			

Other matters

In relation to investment factors, the Trustee has identified several risks which it seeks to manage and monitor, in conjunction with the Fiduciary Manager. Solvency and mismatch risk, investment manager risk, liquidity risk, and interest rate and inflation risks have been discussed above in the relevant sections on investment strategy and investment managers. The Fiduciary Manager reported to the Trustee on each of these risks in quarterly meeting papers which were discussed at the Trustee's quarterly meetings.

In addition to these risks, the Trustee also seeks to measure and manage:

- **Currency risk:** Some of the Trustee's investments are denominated in a different currency to the Scheme's liabilities which creates a mismatch. The Fiduciary Manager managed the Scheme's exposure to foreign currencies within guidelines set by the Trustee. Currency hedging was implemented via investing in GBP-hedged share classes for overseas denominated funds. Throughout the year, the Fiduciary Manager left a small proportion of the Scheme's foreign currency exposure unhedged for reasons of diversification and return generation. The Fiduciary Manager monitored the Scheme's unhedged exposures on a regular basis and reported this to the Trustee as part of its quarterly meeting papers.
- **Custodial risk:** The Scheme is exposed to the risk that any assets held on the custodian's balance sheet could be lost if the custodian was to become insolvent. The Trustee addressed this by investing in pooled funds where the Scheme's assets are held by a separate custodian appointed by the manager. In addition, any uninvested cash was swept into a pooled cash fund at the custodian where the assets are held off the custodian's balance sheet. In addition, the Fiduciary Manager's specialist research team reviews the custodian on a regular basis.

- Political risk: The Trustee recognises that the value of the Scheme's assets may be impacted by political regimes and actions, particularly in less established/ more opaque markets. Throughout the year, the Scheme's portfolio remained well diversified by geography, and managed within geographical constraints specified in the Fiduciary Manager's guidelines. The Fiduciary Manager considers political risk when determining whether to allocate capital to an investment and also in determining the relative sizing of an investment.
- Sponsor risk: The Trustee receives and evaluates information relating to the Sponsor covenant on a regular basis. The Trustee has agreed a contribution and funding schedule with the Sponsor.

Conclusion

The Trustee considers that all SIP policies and principles were adhered to during the year.

Appendix 1: Manager voting policies

Towers Watson Investment Management's ("TWIM") voting policy is provided below

As TWIM manages Fund of Funds, the voting rights for the holdings are the responsibility of the underlying managers. TWIM expects all the underlying managers who hold equities over a reasonable timeframe to vote all shares they hold.

As at the year end the Towers Watson Core Diversified Fund held the majority of its equity holdings via the AMX platform which uses EOS at Federated Hermes for voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. The underlying managers must provide an explanation and note their rationale when they choose to vote differently to the recommendation.

There was also an allocation of equity holdings held with State Street Global Advisers ("SSgA") during the Scheme Year and an active manager in a China Equity Fund. The voting policies of each of these managers are set out below.

SSgA's voting policy is provided below

SSGA retains Institutional Shareholder Services Inc. (ISS), a firm with expertise in proxy voting and corporate governance. SSGA utilizes ISS's services in three ways. First, as SSGA's proxy voting agent, ISS provides SSGA with vote execution and administration services. Second, ISS applies SSGA's Proxy Voting Guidelines where appropriate. Lastly, ISS provides the highest level of research and analysis related to general corporate governance issues and specific proxy items.

Corporate governance and sustainability issues are an integral part of SSgA's investment process. SSgA engage with companies to provide insight on the principles and practices that drive their voting decisions. They also conduct proactive engagements to address significant shareholder concerns and environmental, social, and governance ("ESG") issues in a manner consistent with maximizing shareholder value.

SSgA is a signatory to the United Nations Principles for Responsible Investment ("UNPRI"). They are committed to sustainable investing and are working to further integrate ESG principles into investment and corporate governance practices where applicable and consistent with their fiduciary duty.

The active manager – China equity's voting policy is provided below

"[We use] Glass Lewis as proxy voting service vendor to process votes on resolutions of investment companies in their shareholders' meetings. The service platform allows us to source voting ballots from multiple custodians, provide voting research papers with detailed analysis and recommendations it also allows us to submit voting decisions in an efficient centralised manner. It also possesses a reporting function on voting data in various formats which is helpful in reporting to our clients."