

# 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 through 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

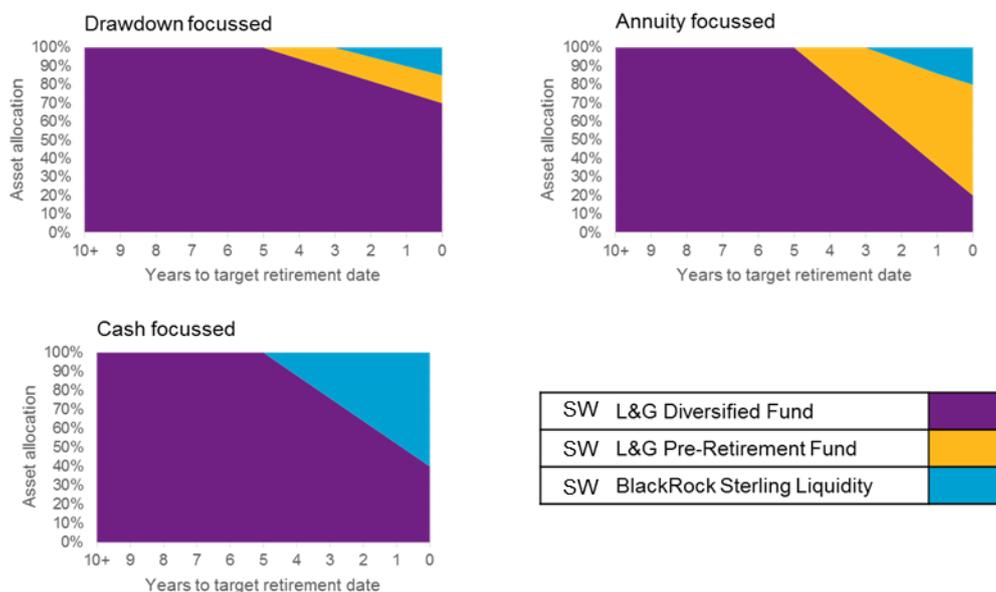
18 Based on the Trustee's investment objectives, the Trustee has selected a range of investment options available to members. Contributions are invested with BlackRock and Legal & General Investment Management (LGIM) through the bundled arrangement with Scottish Widows which aim to track the performance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

Asset class	Fund	Objective and Benchmark	Total Annual Charge
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 material 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.