

# Statement of Investment Principles

## The Carlyle (1972) Pension & Life Assurance Scheme

April 2024

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# 1. Introduction

## 1.1. What is the purpose of this Statement of Investment Principles ("SIP")?

This SIP sets out the policy of the Trustees of The Carlyle (1972) Pension & Life Assurance Scheme (the "Trustees" and the "Scheme") on matters governing decisions about the investments of the Scheme.

The Scheme is a Registered Pension Scheme for the purpose of the Finance Act 2004. It is classed as a defined benefit pension scheme and is open to future contributions from existing and new members.

## 1.2. Who has had input to the SIP?

This SIP has been prepared after obtaining and considering written professional advice from Quantum Advisory ("Quantum"), the Trustees' investment adviser, and consulting The Carlyle Trust Limited (the "Sponsoring Employer") as required by the Pensions Act 1995 (the "Act") and subsequently by the Regulations. Quantum has the knowledge and experience required under the Regulations to provide professional advice on the management of the Scheme's investments.

## 1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Act and all subsequent legislation, Regulations and guidance from the Pensions Regulator applying to UK pension schemes.

## 2. Policy, objectives and strategy

### 2.1. Investment policy

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed.

The Trustees are aware of the need to invest assets in the best and sole interest of the members and that the powers of investment must be exercised in a manner which supports the security, quality, liquidity and profitability of the Scheme as a whole.

The Trustees recognise that the assets of the Scheme must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must, in any event, be kept to a prudent level.

### 2.2. Investment objective

The Trustees, with the help of their advisers and in consultation with the Sponsoring Employer, set the current investment strategy following a consideration of the Scheme's objectives and other related matters in November 2023.

The Trustees have identified the following objectives:

- The Trustees' seek to maintain an investment strategy that is likely to deliver sufficient long term returns for the Scheme to meet its funding requirements. In the short to medium-term, this involves managing the Scheme's assets to be able to meet cash flow requirements as they arise. In the long-term, this involves maintaining a funding level of 100% on a Technical Provisions basis.
- To have a reasonable expectation of achieving that return without taking an intolerable level of risk.
- The Trustees' seek to avoid unnecessary complexity. A pragmatic investment strategy is sought, which takes account of the value of Scheme assets, the current governance structure, the number of funds utilised and the payment of proportionate fees for the advice received.
- The Trustees' seek to delegate "day-to-day" investment decisions, as far as possible, to a third-party investment professional as they do not possess the resources or desire to invest assets directly.

### 2.3. What risks were considered and how are they managed?

In setting their strategy, the Trustees recognised the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that an investment manager will not meet its targets;
- the risk that the value of liabilities will increase due to changes in actual and expected inflation and interest rates;
- the risk of a mis-match between the value and timing of the Scheme's income and outgo;

- the risk of a shortfall in the liquid assets held by the Scheme relative to its immediate liabilities;
- the risk that the performance of any single investment within the Scheme assets might disproportionately affect the ability of the Scheme to meet its overall investment objectives;
- the risk of misappropriation, unauthorised use or mis-delivery of Scheme assets; and
- the risk that ESG factors, including climate change, adversely impact the value of the Scheme’s assets if this is not given due consideration and/or is misunderstood.

The Trustees recognise these different types of risk and seek to minimise them as far as possible by the use of regular monitoring of investment performance, by a deliberate policy of diversification, by taking into account the timing of future payments and by regularly reviewing the appropriateness of the prevailing strategy against the Scheme’s objectives.

The Trustees are cognisant of the need to balance the level of risk adopted by the Scheme’s investment strategy against the strength of the Sponsoring Employer’s covenant. The Trustees do not currently obtain an independent assessment of the strength of the covenant, but reserve the right to do so at a future date.

Given the complex and correlated nature of these risks, the Trustees consider them as part of each formal investment strategy review. Some of these risks may also be modelled explicitly during such reviews.

## 2.4. What is the investment strategy?

The investment strategy uses two key types of assets:

- “Matching assets”: these exhibit characteristics similar to those of the Scheme’s liabilities. Typically, matching assets are low risk fixed income investments and the return from them is similar to the return on UK government bonds (referred to as the ‘minimum risk’ return).

The Trustees recognise that there are benefits to be derived from the use of Liability Driven Investment (“LDI”) solutions, such as the use of gearing. However, such solutions come with enhanced governance criteria, such as the management of collateral and counterparty risk.

- “Return seeking assets”: these target a rate of return in excess of the minimum risk return. Typically, these are equities or a diversified pool of other non-matching assets.

Following the most recent investment strategy review, a strategic asset allocation was agreed. The strategy aims to deliver an appropriate mix of investments, both across and within the two broad asset classes, which support the Scheme’s investment objectives.

The Trustees have agreed the appropriateness of the asset allocation benchmarks, performance benchmarks and the various controls adopted by the incumbent managers in managing each fund in which Scheme assets are invested.

The Trustees monitor the performance of the Scheme’s investments on a quarterly basis. Written advice is received as required from their investment consultant.

Further details of the Scheme’s investments are set out below.

<b>Asset class</b>	<b>Allocation (%)</b>
<b>Return Seeking Assets</b>	<b>52.5</b>
Equity	25.0
Alternatives	15.0
Credit	12.5
<b>Liability Matching</b>	<b>47.5</b>
Cashflow Driven Investments	7.5
LDI & Collateral (Cash)	40.0
<b>Total</b>	<b>100.0</b>
<b>Target hedge (% of assets; interest/ inflation)</b>	<b>90/90</b>

The strategy aims to deliver a diversified mix of investments which support the Scheme’s investment objectives.

Further details of the Scheme’s investments are set out in Appendix 1.

## 2.5. Fund managers, style and target returns

The funds in which the Scheme invests are pooled funds, which the Trustees believe are appropriate given the Scheme’s size and nature. The Trustees invest in these funds through Mobius Life Limited (“Mobius”), an implementation solution provider (see section 4).

The relationship with each investment manager is open ended and is reviewed on a periodic basis.

Further details can be found in Appendix 1.

## 2.6. Currency hedging and re-balancing

The Trustees do not have a policy of explicitly hedging currency risk, (with the exception of the Equity Fund) instead, this risk is managed by the investment managers.

Rebalancing is considered on a regular basis and, where practicable, cash-flows into and out of the Scheme are used to achieve this. Further details are set out in Appendix 2.

## 2.7. Financially material considerations, non-financial matters and stewardship policies

### 2.8.1. Financially material considerations

The Trustees acknowledge the potential impact upon the Scheme’s investments (both in terms of risk and return) arising from financially material matters. The Trustees define these as including, but not limited to, ESG factors (including climate change).

With specific regard to ESG factors, the Trustees consider how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. The Trustees also periodically consider publicly available ESG related publications pertaining to the incumbent investment managers, and the Trustees have also produced a report to review the ESG credentials of the Scheme's managers.

The Trustees acknowledge that some of the Scheme's investments are implemented on a passive basis. This restricts the ability of the manager to take active decisions on whether to hold securities based on the investment managers consideration of ESG factors. The Trustees do however expect the incumbent manager, where relevant, to utilise their position to engage with companies on these matters.

To date, the Trustees have not established any restrictions on the appointed investment managers, but may consider this in future.

### **2.8.2. Stewardship policy**

The Trustees acknowledge the constraints that they face in terms of influencing change due to the size and nature of the Scheme's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with the Scheme's investments in a responsible manner.

The Trustees undertook a review of the Scheme's stewardship priorities in 2023. Whilst the Trustees feel that all ESG matters are important, they decided to focus their stewardship efforts on managing climate-related risks, as they recognise that a rise in global temperatures could have an adverse effect on the Scheme's investments, and board structure, as they recognise that a good level of diversity in company boards can help improve long-term returns for investors.

Furthermore, The Trustees recognise that investment managers commonly provide voting information on these two areas, which will allow the Trustees to assess whether or not their voting activity aligns with the Trustees priorities. The Trustees will monitor and discuss instances where the investment managers' voting activity does not align with their priorities, and seek to understand the reasons for this in the first instance. The Trustees will then escalate the matter if it persists and may review their holding in the fund if this is deemed appropriate.

The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of the Scheme's investments.

### **2.8.3. Non-financial matters**

The Trustees consider non-financial factors (where members have been forthcoming with their views). However, the Trustees do not employ a formal policy in relation to this when selecting, retaining and realising investments.

## 3. Additional Voluntary Contributions (AVCs)

### 3.1. What is the strategy for new AVC?

Members are offered an AVC policy for additional contributions.

The Trustees have a responsibility to provide a range of investment vehicles suitable for the AVC accounts. The Trustees have considered the long-term performance characteristics of various asset classes, in terms of their expected returns and the variability of those returns, in deciding on the range of funds to make available to members.

In deciding upon the funds to offer, the Trustees have also considered:

- the need to offer a diverse range of asset classes; and
- the risks and rewards of different asset classes.

For administrative ease, the Trustees have decided to retain the services of Phoenix Life, which secures additional benefits on a money purchase basis for those members electing to pay Additional Voluntary Contributions.

The Trustees periodically review the suitability and performance of these investments.

Each member is responsible for specifying one or more of the available funds for investment of their account, having regard to their attitude to the risks involved.



## 4. Implementation solution

### 4.1. What is an implementation solution and why use it?

An implementation solution is a service that enables pension schemes to buy, sell and hold their investments all in one place. This allows greater flexibility and efficiency when switching investments as the Scheme strategy changes or fund managers have to be replaced.

The centralisation of funds also allows consolidated reporting to be obtained more easily and more regularly, assisting in ensuring that an investment strategy and associated flight path can be effectively tracked and monitored. All of these features allow pension schemes greater administrative efficiency, enhanced ease of strategy implementation and potential fee reductions.

### 4.2. How to access an implementation solution?

Pension schemes enter into a unit linked life policy through a Trustee Investment Policy (TIP). The policy's value is linked to the underlying investments, which the implementation solution provider, in this case Mobius, has been directed to purchase. Mobius is responsible for investing into the underlying funds and takes responsibility for the relationship with the underlying fund managers. This includes transactions, reporting and governance. This differs from a traditional relationship that a pension scheme would have had with their fund managers where they would have invested directly with these managers and maintained a number of these individual relationships.

## 5. Appointment of investment managers

### 5.1. How many investment managers are there?

The Scheme currently holds assets with its investment managers through Mobius. Details of the appointed investment managers, together with fund objectives and characteristics, are outlined in Appendix 1.

### 5.2. What formal agreements are there with the investment managers and implementation solution provider?

The Trustees select investment managers and funds which are appropriate to implement the investment strategy.

The Trustees have signed policy documentation as appropriate with Mobius for the Scheme. The Trustees requested a legal review of the Mobius policy documentation prior to utilising Mobius's Services.

The Trustees have also signed policy documents and agreements and application forms as appropriate with the AVC providers (setting out in detail the terms on which the portfolio is managed) that are not held through the Mobius implementation solution.

The Trustees keep the appointment of all investment managers and AVC providers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Scheme's investment strategy.

### 5.3. What are the investment managers' responsibilities?

The investment managers are responsible for the day-to-day management of the investments and are responsible for appointing custodians, if required.

The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

### 5.4. How do the Trustees review the performance and remuneration of investment managers?

The Trustees have appointed Quantum Advisory to assist in the selection and ongoing monitoring of the Scheme's investment managers.

The Trustees with the assistance of Quantum Advisory will monitor the performance of each fund against its agreed objectives. The Trustees receive regular monitoring reports to assess the managers' performance.

In addition, the Trustees review the charges applicable to each fund on a periodic basis to ensure these continue to represent value for money.

## 5.5. Custodians and administrators

The Scheme's investments are through pooled investment vehicles. Therefore, there is no need for the Trustees to formally appoint a custodian as the investment comprises units held in listed investment vehicles rather than the underlying stocks and shares. However, the investment managers have themselves appointed custodians for the safe custody of assets.

As the Scheme invests via Mobius, custody of the assets held with managers is under the Mobius name.

## 5.6. What is the Trustees' policy on investment in the Sponsoring Employer?

The Scheme does not directly hold any investments in the Sponsoring Employer. The Trustees' policy is not to invest in the Sponsoring Employer.

## 6. Other matters

### 6.1. What is the Trustees' policy on the realisation of investments?

The investment managers have discretion over the timing of realisation of investments within the pooled vehicles held by the Scheme and in considerations relating to the liquidity of investments.

Under the circumstances where the Scheme experiences negative cash-flow, the Trustees and their advisers will decide on the amount of cash required for benefit payments and other outgoings and will inform Mobius of any liquidity requirements.

In the absence of any strong conviction concerning the future movement of markets, assets will be invested/disinvested so as to move the allocation closer to the strategic benchmark.

### 6.2. How are various parties remunerated?

The Scheme invests in pooled funds. The Trustees note that the investment strategy and decisions of the fund managers cannot be tailored to the Trustees' policies and the managers are not remunerated directly on this basis. However, the Trustees, with the help of Quantum Advisory, set the investment strategy for the Scheme and select appropriate managers and funds to implement the strategy.

The Trustees do not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustees do, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustees consider the fees and charges associated with each investment before investing.

Mobius and the investment managers are generally remunerated on an ad valorem fee basis, which is calculated as a percentage of the total value of the funds they hold under management. This structure has been chosen to align their interests with those of the Scheme. The Scheme's LDI provider (Insight) charges an ad valorem fee, which is calculated as a percentage of the total exposure provided by the solution. In addition, the private market assets, which are actively managed, are subject to a performance related fee. Mobius also charge a fixed platform fee for holding assets on their platform.

In addition, the fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The Trustees periodically review this matter.

### 6.3. Direct investments

The Trustees' policy is to review its direct investments (if any) and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustees will obtain written advice from the Scheme's investment adviser. If the Trustees believe that an investment is no longer suitable for the

Scheme, they will withdraw the assets from the arrangement deemed to be unsuitable and select an alternative.

#### 6.4. Monitoring the capital structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

#### 6.5. How do the Trustees manage potential conflicts of interest?

The Trustees consider any potential and actual conflicts of interest (subject to reasonable levels of materiality) at the start of each Trustees' meeting and document these in the minutes.

#### 6.6. Do the Trustees make any investment decisions of their own?

The Trustees are responsible for the investment of the Scheme's assets. They take some decisions themselves and delegate others.

When deciding which decisions to take, and which to delegate, the Trustees take into account whether they have the appropriate training and expertise in order to make an informed decision.

The Trustees have established the following decision making structure:

##### **Trustees**

- Set structures and processes for carrying out their role.
- Select and monitor planned asset allocation.
- Prepare and maintain the Statement of Investment Principles.

##### **Investment adviser**

- Advise on the investment of the Scheme's assets, including implementation.
- Advise on this Statement.
- Provide required training.

##### **Investment managers/Implementation solution**

- Operate within the written contracts and agreements.
- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Ensure the suitability of the chosen benchmark for the respective investment vehicle.

# 7. Reviews

## 7.1. How often are investments reviewed?

Strategy reviews are undertaken periodically. Typically, these occur after triennial actuarial valuations of the Scheme; but more frequent reviews can occur in light of a material change of circumstances.

Investment return experience and the performance of individual funds is reviewed quarterly, with assistance from Quantum Advisory as required.

## 7.2. How do the Trustees monitor portfolio turnover and costs?

The Trustees have delegated the selection of holdings to the appointed investment managers. The Investment Consultant reviews the portfolio turnover and the associated costs of all funds on behalf of the Trustees at least on an annual basis.

The Trustees have not set a specific portfolio turnover target for each investment manager and recognise that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

On behalf of the Trustees, the Investment Consultant will compare the annual turnover and associated costs for each fund with previous years to ensure each investment manager's process and philosophy remain consistent.

## 7.3. How often is this SIP reviewed?

The Trustees will review this SIP at least every three years and following any significant change in investment policy.

Agreed and signed on 16 April 2024.

For and on behalf of The Carlyle (1972) Pension & Life Assurance Scheme.

# Appendix 1

## Managers, fund objectives and characteristics

Manager	Fund	Asset class/sector	Fund objective	Custodian
LGIM	World Equity Index (GBP Hedged) <sup>1</sup>	Equity	The Fund seeks to track the performance of the FTSE World Index (GBP Hedged).	Citibank, N.A. (London Branch)
Partners Group	Generations Fund <sup>1</sup>	Alternatives	The Fund aims to achieve stable returns, moderate risk and low correlation to equity and bond markets.  For benchmarking purposes, the performance of the Fund is compared to both the MSCI World (100% Hedged to GBP) Net Total Return Index and an absolute range of 7% - 11% p.a. over a full market cycle.	BNY Mellon
M&G	Total Return Credit <sup>2</sup>	Credit	The Fund seeks to provide a return of SONIA + 3 – 5% per annum over a full market cycle (gross of fees).	State Street Bank and Trust Company
Insight	Maturing Buy and Maintain fund range <sup>3</sup>	Credit	The Funds aim to (across desired maturities) provide investors with credit risk exposure through investing principally in a globally diversified portfolio of non-government bonds and avoiding investment which, in the opinion of the Investment Manager, are likely to default or experience a significant deterioration in credit quality.	Northern Trust Fiduciary Service (Ireland) Limited
Insight	Partially Funded Gilts range <sup>4</sup>	LDI	The Fund range seeks to match the profile of nominal gilts over the relevant maturities for each fund within the range.	Northern Trust Fiduciary Service (Ireland) Limited

Insight	Partially Funded Index-Linked Gilts range <sup>4</sup>	LDI	The Fund range seeks to match the profile of index-linked gilts over the relevant maturities for each fund within the range.	Northern Trust Fiduciary Service (Ireland) Limited
Insight	GBP Liquidity Fund <sup>4</sup>	LDI Collateral	The Fund is benchmarked against 7-Day GBP LIBID.	Northern Trust Fiduciary Service (Ireland) Limited

<sup>1</sup>Scheme relationship initiated during Q2 2018. <sup>2</sup>Scheme relationship initiated during Q1 2023. <sup>3</sup>Scheme relationship initiated during Q1 2024.

<sup>4</sup>Scheme relationship initiated during Q4 2020.



# Appendix 2

## Strategic asset allocation

The following table outlines the Scheme's strategic asset allocation.

Manager	Fund	Strategic asset allocation (%)	Tolerance range +/- (%)
<b>Equity</b>		<b>25.0</b>	<b>2.5</b>
LGIM	World Equity Index (GPB Hedged)	25.0	--
<b>Alternatives</b>		<b>15.0</b>	<b>1.5</b>
Partners Group	Generations	15.0	--
<b>Credit</b>		<b>12.5</b>	<b>1.5</b>
M&G	Total Return Credit	12.5	--
<b>CDI</b>		<b>7.5</b>	<b>--<sup>1</sup></b>
Insight	Maturing Buy and Maintain fund range	7.5	--
<b>LDI &amp; Collateral</b>		<b>40.0</b>	<b>4.0</b>
Insight	Partially Funded Gilts range	--	--
Insight	Partially Funded Index-Linked Gilts range	--	--
Insight	GBP Liquidity	--	--

<sup>1</sup> Please note, the allocation to CDI does not have a tolerance range as the allocation will reduce over time. This is a result of cashflows being paid and the underlying bonds maturing.

It is the Trustees' intention that, in the absence of any strong conviction about the direction of markets, the allocation of the Scheme's assets will be as set out in the table above.

## Cash flows

Where possible cash flows are used to rebalance back towards the strategic benchmark.

## Collateral management

Collateral calls from de-leveraging events will be met using the below collateral order.

1. Insight Liquidity Fund
2. M&G Total Return Credit Investment Fund
3. LGIM World Equity Index Fund — GBP Currency Hedged

For re-leveraging events, the capital distributed will continue to be distributed into the Insight Liquidity Fund.

## Rebalancing

The asset allocation relative to the tolerance ranges will be reviewed on a quarterly basis. If any tolerance ranges are breached then the Scheme's investment adviser will contact the Trustees to discuss any possible rebalancing of assets, taking into account the costs and possible risks to the Scheme. If a rebalancing of assets is considered necessary, any contributions accumulated in the Trustees' bank account (or disinvestments required for cash flow) will be given consideration for rebalancing purposes.

The Trustees recognise that rebalancing is not an exact process; therefore it is important to avoid the additional costs arising from the diminishing benefits associated with trying to precisely replicate the Scheme's strategic allocation. It is also noted that the CDI allocation will fall over time, as cashflows are paid and bonds mature. The CDI portfolio will therefore be excluded from any short-term rebalancing.

For the avoidance of doubt, the rebalancing procedure is with recourse to the Trustees.