Statement of Investment Principles

For the Castle Pension Scheme

Effective from: July 2023

1. Introduction

This Statement of Investment Principles ("SIP") has been produced by Castle Pension Scheme Trustees Limited ("the Trustee").

It sets out the Trustee's policies on various matters governing investment decisions for the Castle Pension Scheme ("the Scheme"), which is a Defined Benefit ("DB") Scheme.

This SIP replaces the previous SIP dated August 2020.

This SIP has been prepared after obtaining and considering written advice from LCP, the Trustee's investment adviser, whom it believes to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

The relevant employer has been consulted in producing this SIP.

The Trustee will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

The Trustee has produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme's investments, but which are not required to be included in the SIP.

2. Investment objectives

The primary objective for the Scheme is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, the Trustee has the following objectives:

- the expected return on the Scheme's assets is maximised whilst managing and maintaining investment risk at an appropriate level.
- that over the long-term the Scheme should be funded on a solvency basis (i.e., the asset value should be at least that of its liabilities on a solvency basis) and should adopt a low-risk long-term investment strategy.

3. Investment strategy

With input from its advisers and in consultation with the employer, the Trustee has set the below investment strategy for the Scheme, considering the objectives described in Section 2 above.

Asset class	Benchmark allocation %	Range %
Equities	5	3-7
Alternative investments	14	12-16
Total growth assets	**19**	**15-23**
Liability matching assets	81	77-85
TOTAL	**100**	

The Trustee's policy is to target the maximum expected level of return subject to ensuring the level of investment risk is appropriate to reflect the Scheme's circumstances. The Trustee believes that the strategy above meets this objective.

The Trustee is aware that the Scheme's allocation to the various asset classes will differ to the benchmark allocation from time to time due to market movements. The Trustee will review the Scheme's asset allocation regularly and decide whether (or not) to rebalance back to the strategic benchmark, in particular when the asset allocation moves outside the indicated ranges.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, it is the Trustee's policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as its beliefs about investment markets and which factors are most likely to impact investment outcomes.

The Trustee takes an integrated approach when assessing risk and reviewing the investment strategy. In particular the Trustee takes account of the employer covenant, contributions, funding targets, liability profile (including interest rate and inflation sensitivities and the extent to which they are hedged) and the level of expected return and risk now and as the strategy evolves.

The primary ways that the Trustee manages investment risk are via diversification, ensuring the Trustee receives professional written advice prior to making any material investment decision, and its ongoing monitoring and oversight of the investments. Further details of specific risks (for example equity risk, credit risk and currency risk) and how the Trustee measures and manages those risks is set out in Part 2 of the SIP addendum.

In setting the strategy it is the Trustee's policy to consider:

- Its investment objectives, including the target return required to meet these.
- The circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant.
- The need for appropriate diversification between different asset classes to manage investment risk and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

The Trustee also considers other factors that it believes to be financially material over time horizons relevant to the funding of the benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

The Trustee's key investment beliefs, which influence the setting of the investment arrangements, are as follows:

- Asset allocation is the primary driver of long-term returns.
- Risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified.
- ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this.
- Climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term.
- Investment managers who can consistently spot and profitably exploit market opportunities are difficult to find, and therefore passive management is usually better value.
- Costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.
- Voting and engagement are important and can create long term value which is in the best interest of Scheme members and therefore the Trustee encourages managers to improve their voting and engagement practices.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

The Trustee has signed agreements with the investment managers setting out the terms on which the portfolios are to be managed. Details of the investment managers are set out in the separate SIP addendum.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee’s view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee’s responsibility to ensure that the managers’ investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund’s terms, the duration of a manager’s appointment will depend on strategic considerations and the outlook for future performance. If a manager is not meeting its performance objectives, the Trustee will consider alternative arrangements.

The Trustee’s policy is to evaluate each of its investment managers by considering performance, the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager’s remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in the Trustee’s assessment of the investment managers, the Trustee does not explicitly monitor portfolio turnover. It expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the ongoing suitability of the Scheme’s investment mandates.

6. Realisation of investments

The Trustee cannot usually directly influence the managers’ policies where the Trustee holds assets in pooled funds. The investment managers have discretion over the timing of realisation of investments of the Scheme and in considerations relating to the liquidity of investments.

When appropriate, the Trustee, on the administrators’ recommendation, decides on the amount of cash required for benefit payments and other outgoings, and informs the investment managers of any liquidity requirements. The Trustee’s preference is for investments that are readily realisable but recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid (e.g., property).

7. Financially material considerations and non-financial matters

The Trustee considers how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee influences the Scheme’s approach to ESG and other financially material factors through its investment strategy and manager selection decisions. The Trustee expects all of its investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. The Trustee seeks to appoint managers that have the skills and processes to do this, and review how the managers are taking account of these issues in practice.

The Trustee encourages its managers to improve their ESG practices, although acknowledge that it has limited influence over managers’ investment practices where assets are held in pooled funds and that the parameters of some pooled funds may limit the scope for significant incorporation of ESG factors.

The Trustee does not consider matters that are purely non-financial in nature (i.e., matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

8. Voting and engagement

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments and is in the best interests of its members.

The Trustee seeks to appoint investment managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. The Trustee expects the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

As all of the Scheme's investments are held through managers or pooled funds, the Trustee does not monitor or engage directly with issuers or other holders of debt or equity.

The Trustee monitors managers' activities in relation to ESG factors, voting and engagement on a regular basis. It seeks to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with the Trustee's expectations.

The Trustee has selected some priority ESG themes to provide a focus for its monitoring of investment managers' voting and engagement activities. The Trustee reviews the themes regularly and updates them if appropriate. The Trustee communicates these stewardship priorities to its managers.

If its monitoring identifies areas of concern, the Trustee will engage with the relevant manager to encourage improvements.