

# *Statement of Investment Principles*

**For the Annuity sections of the Caparo 1988 Pension Scheme**

**September 2023**



## 1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by the Trustee of the Caparo 1988 Pension Scheme.

It sets out our policies on various matters governing investment decisions for the sections in respect of Caparo Engineering Limited, Caparo Industries Plc, Caparo Precision Tubes Limited and Caparo Steel Products Limited (“the Annuity Sections”) of the Caparo 1988 Pension Scheme (“the Scheme”), which is a Defined Benefit (“DB”) Scheme.

This SIP replaces the previous SIP dated September 2020.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe 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 Annuity Sections and the principles contained in this SIP.

We have consulted with the relevant stakeholders in producing this SIP.

We 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.

## 2. Investment objectives

The primary objective of the Annuity Sections is to ensure that the benefit payments are met as they fall due.

In addition to this primary objective, we have a secondary objective of securing potential top-up to insured liabilities as / when recoveries from the former sponsoring employers have been received.

## 3. Investment strategy

The Annuity Sections’ investment strategy is to hold a bulk annuity contract covering the PPF benefits for the Annuity Sections’ members.

Any additional assets are invested in further / add-on bulk annuity contracts, and / or held in a low-risk strategy. This strategy includes some hedging in case a further / add-on bulk annuity contracts become feasible in due course.

The investment allocation at 30 June 2023 for the Annuity Sections was broadly as shown in the following table.

Asset class	Allocation range
Liability driven investment	10-30%
Sterling liquidity fund	70-90%

Hedging is achieved by an allocation to a nominal Liability Driven Investment (“LDI”) fund, which is designed to hedge against movements in long-term interest rates.

A portion of the Annuity Sections’ assets are also held in a sterling liquidity fund. As well as being held to reduce investment risk, this allocation acts as a cash source should additional collateral be required by the LDI fund in the event of large increases in nominal interest rates.

## 4. Considerations in setting the investment arrangements

When deciding how to invest the Annuity Sections’ assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks

associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

We take an integrated approach when assessing risk and reviewing the investment strategy. In particular we take account of: the employer covenant (where available), 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 we manage investment risk is ensuring that we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments.

In setting the strategy for the Annuity Sections it is our policy to consider:

- our investment objectives, including the target return required to meet these.
- the circumstances of the Annuity Sections, including the possibility of recoveries from the former employers.
- 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.

## 5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed agreements with the investment manager setting out the terms on which the portfolios are to be managed.

We have limited influence over manager's investment practices because all the Annuity Sections' assets are held in pooled funds, but we encourage managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment manager, and the possibility of its mandate being terminated, ensure it is incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions of its funds. However, in practice managers cannot fully align 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 our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers to make decisions based on assessments of the longer term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate 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, we will consider alternative arrangements.

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

We recognise 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 our assessment of the investment manager, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Annuity Sections' investment mandate.

## 6. Realisation of investments

We instruct disinvestments as required for outgoing payments. Our preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid.

## 7. Financially material considerations and non-financial matters

We consider 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 Annuity Sections and their members.

We influence the Annuity Sections' approaches to ESG and other financially material factors through our investment strategy and manager selection decisions.

We expect all of our 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. We seek 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.

We encourage our managers to improve their ESG practices, although acknowledge that we have 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.

We do not consider matters that are purely non-financial in nature (eg 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. However, the line between financial and non-financial factors is not always clear and some non-financial factors that may not immediately present as financially material may have the potential to become so in the future. We keep this under review as part of our overall consideration of ESG considerations.

## 8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe 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 our members.

Before deciding which manager to appoint, we carry out a detailed review of the manager's voting/stewardship activities and outcomes to determine how well they align with the Annuity sections' stewardship themes and priorities. We also express our preferences regarding ESG and stewardship approaches with prospective managers, to check alignment.

We have 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. We expect the managers to

undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

As all of our investments are held through managers or pooled funds we do not monitor or engage directly with issuers or other holders of debt or equity.

We monitor managers' activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

We have selected some priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We review the themes regularly and update them if appropriate. We communicate these stewardship priorities to our managers.

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