

Statement of Investment Principles

For the Liberty Merchant Bar section 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 Liberty Merchant Bar section (“the LMB section”) 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 LMB section and the principles contained in this SIP.

We have consulted with the relevant employer 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.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the LMB section’s investments, but which are not required to be included in the SIP.

2. Investment objectives

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

In addition to this primary objective, we have a secondary objective that the LMB section’s assets should be invested in a low-risk manner to avoid a significant deterioration in the LMB section’s funding level while meeting its short to medium term cash flow requirements.

3. Investment strategy

With input from our advisers and in consultation with the employer, we reviewed the investment strategy from time to time, considering the objectives described in Section 2.

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

Asset class	Allocation
Liability Driven Investment	31%
Absolute return bonds	20%
Corporate bonds	18%
Private equity	2%
Sterling liquidity fund	29%

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to reflect the LMB section’s circumstances and the sponsor covenant. We believe that the allocation above broadly meets this objective.

The Trustee will monitor the distributions of assets between the managers and rebalance the assets as and when required.

The hedging achieved by the allocation to Liability Driven Investment is monitored and rebalanced from time to time. While the LMB section does not have a formal target for its hedging arrangement, the Trustee generally aims to hedge of 100% of the LMB section’s liabilities on a Technical Provisions basis.

A portion of the LMB section's assets is 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 Liability Driven Investment arrangement in event of large increase in real or nominal interest rates.

4. Considerations in setting the investment arrangements

When deciding how to invest the LMB section's 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, 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 via diversification, ensuring that we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. Further details of specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in Part 2 of the SIP addendum.

In setting the strategy for the LMB section it is our policy to consider:

- our investment objectives, including the target return required to meet these
- the circumstances of the LMB section, 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

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 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.

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

Our 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 their 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 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 each of our investment managers 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. Each 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 managers, 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 LMB section's investment mandates.

6. Realisation of investments

We instruct disinvestments as required for benefit payments and other outgoings. 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 LMB section and its members.

We influence the LMB section's approach 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 LMB section's 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.

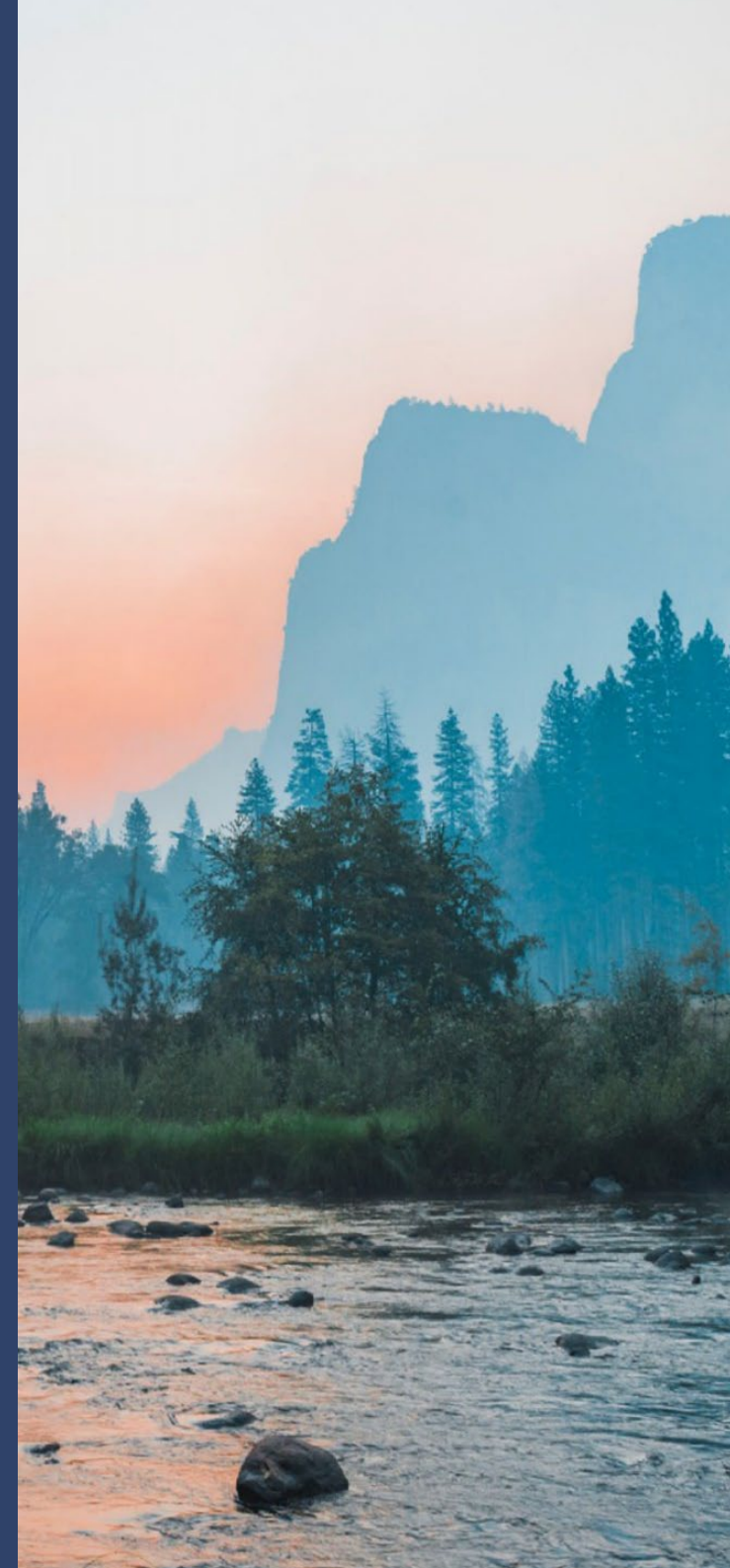
If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements.

Addendum to the Statement of Investment Principles

For the Liberty Merchant Bar section of the Caparo 1988 Pension Scheme

September 2023

This addendum to the Statement of Investment Principles (“SIP”) for the Liberty Merchant Bar section (“the LMB section”) of the Caparo 1988 Pension Scheme (the “Scheme”) has been produced by the Trustee of the Scheme. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the LMB section’s investment arrangements.



Part 1:

Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the LMB section. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the LMB section overall. Our investment powers are set out within the LMB section's governing documentation.

1. Trustee

Our responsibilities include:

- setting the investment strategy, in consultation with the employers
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments
- putting effective governance arrangements in place and documenting these arrangements in a suitable form
- monitoring, reviewing, engaging with and replacing investment managers, investment advisers, actuary, and other service providers
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended)
- communicating with members as appropriate on investment matters, the policies regarding responsible ownership and how such responsibilities have been discharged
- reviewing the SIP and modifying it as necessary.

2. Investment managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation

- taking account of financially material considerations (including climate change, and other Environmental, Social and Governance ("ESG") considerations) as appropriate in managing the assets
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments
- providing regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

The investment adviser's responsibilities include:

- advising on how material changes within the LMB section's benefits, membership, and funding position may affect the manner in which the assets should be invested
- advising on and monitoring liability hedging and collateral management
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations)
- assisting us with reviews of this SIP.

4. Fee structures

The provision of investment management and advisory services to the LMB section results in a range of charges to be met, directly or indirectly, by deduction from the LMB section's assets. We have agreed terms with the LMB section's actuarial and

investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a “time-cost” basis.

The investment managers receive fees calculated by reference to the market value of assets under management and in some cases a performance related fee.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the LMB section, and we keep the fee structures under review.

5. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the LMB section’s investments, investment providers and professional advisers from time to time.

6. Working with the sponsoring employer

When reviewing matters regarding the LMB section’s investment arrangements, such as the SIP, we seek to give due consideration to the employer’s perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employers, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

Part 2:

Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the employer covenant and how this may change over time
- the agreed journey plan and employer contributions
- the LMB section's long-term and shorter-term funding targets
- the LMB section's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged
- the LMB section's cash flow and target return requirements

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

Risk of inadequate returns

A key objective is that the assets produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustee's ability to meet its investment objectives. The Trustee believes that the need for the LMB section's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in Section 3 of the SIP and by the guidelines agreed with the investment managers.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the LMB section's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Credit risk

The LMB section is subject to credit risk because it invests in bonds via pooled funds. This risk is managed by only investing in pooled funds that have a diversified exposure to different credit issuers, and only invest in bonds that are classified as "investment grade".

Currency risk

Whilst the majority of the currency exposure of the LMB section's assets is to Sterling, the LMB section is subject to currency risk because some of the LMB section's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that it diversifies the strategy and is appropriate.

Interest rate and inflation risk

The LMB section's assets are subject to interest rate and inflation risk because some of the LMB section's assets are held in bond funds and Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the LMB section's assets provide protection (hedges) part of the corresponding risks associated with the LMB section's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Climate-related risks

The Trustee has considered financially material factors such as environmental, social and governance issues as part of the investment process to determine a strategic asset allocation. It believes that financially material considerations are implicitly factored into the expected risk and return profile of the asset classes they are investing in. However, the Trustee has not made an explicit allowance for risks associated with climate change as they believe it is difficult to accurately quantify.

Other environmental, social and governance (ESG) risks

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its fund managers to take account of financially material considerations.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment adviser.

Illiquidity/marketability risk

This is the risk that the LMB section is unable to realise assets to meet benefit cash flows as they fall due, or that the LMB section will become a forced seller of assets in order to meet benefit payments. We are aware of the LMB section's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the LMB section's investments.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation.

This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, Columbia Threadneedle makes use within its fund of derivative and gilt repos contracts and this fund is used to match efficiently the LMB section's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Valuation risk

Some of the LMB section's assets (such as bond holdings) can be valued regularly based upon observable market prices. For other assets (such as private equity), prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice.

We consider exposure to valuation risk in the context of the LMB section's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Other non-investment risks

We recognise that there are other non-investment risks faced by the LMB section. We take these into consideration as far as practical in setting the investment arrangements.

Examples include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the LMB section as anticipated).

Both investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress against the funding target.

Part 3:

Investment manager arrangements

Details of the investment managers are set out below.

Columbia Threadneedle (“CT”) – Liability Driven Investment (“LDI”) & Sterling liquidity fund

The Trustee has selected CT as the investment manager for the LMB section’s liability driven investments. The LMB section invests in three of CT’s Dynamic LDI Funds. One of these funds is designed to hedge nominal interest rate exposures of pension liabilities. The other two funds are designed to hedge both nominal interest rate and inflation exposure (i.e. real interest rate exposures) of pension liabilities.

A portion of the LMB section’s assets is also held in cash in CT’s Sterling Liquidity Fund. As well as being held to reduce investment risk, this acts as a cash buffer should extra cash be required by the Dynamic LDI Funds in case of large movements in real or nominal interest rates.

Insight – Absolute return bonds & Corporate bonds

The Trustee has selected Insight as the investment manager for the absolute return bond assets of the LMB section. The LMB section invests in one Insight absolute return bonds fund and one Insight corporate bond fund:

- The benchmark for Insight’s Bonds Plus Fund is the Sterling Overnight Index Average (“SONIA”). The performance objective is to outperform the benchmark by 2% pa, before fees.
- Due to the nature of Insight’s Short Dated Buy and Maintain Bond Fund, it does not have a formal benchmark, however, Insight expect a return similar to or greater than that of the Markit iBoxx GBP Collateralized & Corporates 0-5 Year Index.

BlackRock– Private equity

BlackRock is the investment manager for the LMB section’s private equity holding. This is a legacy investment, valued at approximately £0.2m at the time of preparation of this SIP.

The private equity holding has no formal benchmark objective against which to assess performance. The Trustee will consider the performance at regular intervals.

Part 4:

Monitoring and engaging with managers on voting and engagement

Stewardship priorities

The Trustee has limited influence over managers' stewardship practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate. If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of their investment adviser, to influence the investment manager's policy. If this fails, the Trustee will review the investments made with the investment manager.

Manager selection

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

Manager monitoring

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries.

Implementation statement

Following the end of each Scheme year, we prepare a statement which explains how we have implemented our Statement of Investment Principles / voting and engagement policies during the year. We publish it online for our members to read.