The P&O Princess Cruises Pension Scheme

Annual DB Implementation Statement – Scheme Year ending 31 March 2024

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Introduction

This document is the Annual Implementation Statement (the "Statement") prepared by the Trustee of the P&O Princess Cruises Pension Scheme covering the year 1 April 2023 to 31 March 2024 (the "Scheme Year").

The purpose of this Statement is to:

- Detail any reviews of the Statement of Investment Principles ("SIP") the Trustee has undertaken, and any changes made to the SIP over the year as a result of the review.

- Set out the extent to which, in the opinion of the Trustee, the Scheme's SIP has been followed during the Scheme Year; including policies on engagement and voting.

This Statement relates to the Defined Benefit Section ("DB Section") of the Scheme, excluding the Additional Voluntary Contribution benefits under the DB Section. A separate statement has been produced in relation to the Defined Contribution ("DC") assets.

The Scheme makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focussing on areas of maximum impact. The Trustee confirms that the investments which the Scheme holds were chosen in line with the requirements of section 36 of the Pensions Act 1995.

The Trustee delegates certain day-to-day tasks and decisions to third-parties with appropriate knowledge and experience to perform the role competently. In particular, the Trustee has appointed a Fiduciary Manager, Towers Watson Limited ("WTW"), to manage the Scheme's DB Section on a discretionary basis. The Fiduciary Manager's discretion is subject to guidelines and restrictions set by the Trustee. So far as is practicable, the Fiduciary Manager considers the policies and principles set out in the Trustee's SIP in carrying out its role.

A copy of this implementation statement has been made available on the following website: https://www.pocruises.com/legal-and-privacy/pensions

Review of and changes to the SIP – DB Section

The Trustee has made the following changes to the SIP over the year:

- Expanded policy relating to stewardship, including voting and engagement

- Defined arrangements and expectations for investment managers

- Clarified the types of investments utilised within the investment strategy

For the purpose of assessing how the Scheme's SIP has been followed, the remainder of this statement specifically focusses on the SIP agreed in September 2023, a copy of which can be found via the link included above.

Adherence to the SIP – DB Section

Investment objective

As outlined in the SIP, the Trustee has three key objectives for investing the DB Section assets:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Scheme's sponsoring employer (the "Company"), the cost of current and future benefits which the Scheme provides, and to ensure the security, quality and profitability of the portfolio as a whole.

- To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis.

- To minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objectives shown under the points above.

No changes were made to these objectives during the year.

Investment strategy

The Trustee has received advice on an investment strategy aimed at maximising the chances of achieving its objectives. The investment strategy was last reviewed in July 2021, based on the finalised results from the 2019 triennial actuarial valuation at which point the Trustee agreed to retain the current target return (which reflected de-risking activity undertaken during 2020). The Trustee agreed with the Company in February 2023 that maintaining the investment strategy implemented in 2022 continued to be appropriate. The investment strategy is expected to be reviewed over the course of 2024 and 2025 to reflect the Scheme's progress against its journey plan since the last investment strategy review. The Trustee monitors progress relative to its objectives on a quarterly basis as outlined below.

The Trustee believes in diversification and the Scheme's portfolio is built using a diverse range of return-seeking and secure income assets and a dedicated allocation to liability driven investments which seek to match the sensitivity of the Scheme's liabilities to inflation and interest rates in line with the policies set out in the SIP.

Throughout the year, implementation of this strategy including the realisation of investments was delegated to the Fiduciary Manager who managed the balance of these investments within guidelines set by the Trustee; including asset allocation, manager diversification, and foreign currency exposure.

The Fiduciary Manager's guidelines were updated during the 2021/22 Scheme year to formally document the current target return and associated parameters. The Fiduciary Manager is required to report any breach of these guidelines to the Trustee. A soft breach of the Scheme's liquidity and asset allocation guidelines were reported during the year as a result of market movements and, given the nature of the breach, it was agreed that no action was required.

The Trustee considers that the balance of investments held and the approach to managing risk is in the best interests of members in order to mitigate downside risk to the funding position of the Scheme whilst helping the Scheme to achieve its ultimate objective over an appropriate time horizon.

In order to ensure appropriate incentivisation and alignment of decision-making between the Trustee and the Fiduciary Manager, the Fiduciary Manager is subject to a number of obligations set out in its contractual arrangements with the Trustee and the Fiduciary Manager is aware of and gives effect to the principles set out in the Trustee's SIP. The Fiduciary Manager acted in accordance with these obligations throughout the year.

The Trustee's investment strategy seeks to outperform a benchmark based on a projection of the Scheme's liability cashflows. The liability benchmark is updated following each actuarial valuation, and when there is any significant change to the structure of the Scheme's liabilities. The liability benchmark was last updated in March 2024 based on market conditions as at September 2023. This followed the finalisation of the 31 March 2022 Actuarial Valuation.

The Fiduciary Manager monitored the Scheme's funding position daily via its Asset and Liability Suite software and reviewed the Scheme's investments and managers on a regular basis throughout the year to ensure that the investment strategy remained consistent with the Scheme's objectives. On a quarterly basis, the Trustee reviewed the Scheme's asset allocation, funding position and progress relative to the journey plan (the projected path to achieve the Scheme's overall long-term objective), and measures of the expected return and risk of the Scheme's portfolio, to ensure that these remained broadly consistent with the Scheme's objectives.

The Trustee has a policy to ensure that the Scheme's cashflow requirements can be readily met without disrupting its investments. Throughout the year, the Fiduciary Manager regularly monitored the level of cash in the Scheme, and cashflows into / out of the Scheme to ensure that there were enough assets in readily realisable investments to meet the Scheme's requirements without disrupting its investments. The Fiduciary Manager can adjust the Scheme's allocation to cash when necessary within guidelines set by the Trustee. The Trustee monitored the liquidity of the Scheme's portfolio and cashflows into and out of the Scheme on a quarterly basis.

Investment managers

As set out above, the Trustee has delegated responsibility to the Fiduciary Manager to implement the Trustee's agreed investment strategy, including making certain decisions about investments (including asset allocation and manager selection) in compliance with sections 34 and 36 of the Pensions Act 1995.

Throughout the year, the Fiduciary Manager regularly monitored the performance of the Scheme's investment managers. Performance was monitored relative to an appropriate market benchmark where one was available or an appropriate return objective where a market benchmark was not available. In addition, the Fiduciary Manager assessed the performance of the Scheme's investment managers relative to peers and in the context of the prevailing market environment. Throughout the year, the Fiduciary Manager and Trustee focussed their assessment of investment manager performance on the long-term, consistent with the Trustee's position as a long-term investor.

On a forward-looking basis, past performance is only one input into the Fiduciary Manager's assessment of an investment manager, which relies predominantly on research views based on a range of qualitative and quantitative factors, including the consideration of Sustainable Investing ("SI") / Environmental, Social and Governance ("ESG") factors as outlined below. Whilst there were some changes to the underlying investment managers, no managers were terminated based on short-term performance alone. Consistent with the Scheme's long investment time horizon, the Trustee seeks to be a long-term investor and the Fiduciary Manager has appointed managers (in most cases) with the expectation of a long-term relationship. This in turn allows investment managers to take a longer-term approach to investing, including engagement with issuers of debt and equity, with a view to improving investment outcomes over the long-term. As at the end of the year, the Scheme was invested in 14 investment funds (7 of which are within the LDI portfolio) and the average tenure of the Trustee's investments in these funds was 5 years.

The Trustee received quarterly monitoring reports from the Fiduciary Manager during the Scheme Year. Performance shown in these reports was based on performance reporting provided by the Scheme's Independent Performance Measurer, State Street. These reports were included for scrutiny and discussion at the Trustee's quarterly meetings. The reports included details of short-, medium- and longer-term performance relative to benchmarks/targets for all funds as well as commentary on an exceptions' basis regarding performance with significant deviation from benchmark/target. Throughout the Scheme Year, the Trustee used these reports as an input into its ongoing assessment of the Fiduciary Manager's performance. Like the approach taken with the Scheme's underlying investment managers, the Trustee appointed the Fiduciary Manager with the expectation of a long-term relationship and therefore takes a long-term approach to its assessment of the Fiduciary Manager's performance. The Fiduciary Manager was appointed 8 years ago.

Manager selection, de-selection and monitoring

As set out above, the Trustee has delegated responsibility to the Fiduciary Manager to implement the Trustee's agreed investment strategy, including making certain decisions about investments (including asset allocation and manager selection/deselection) in compliance with sections 34 and 36 of the Pensions Act 1995.

As part of its manager selection and ongoing oversight processes, the Fiduciary Manager considers the level of fees and the type of fee structures used by each manager (including a consideration of the alignment of interests created by certain fee structures).

The Fiduciary Manager considers several factors including the asset class / investment strategy, the way in which the strategy is implemented (e.g., active management or passive benchmark tracking), and fee benchmarking relative to peers. The majority of the Scheme's investment managers were 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. The exceptions to this was in the area of Secure Income Assets where a minor part of the underlying investment managers' remuneration was based on its performance over an appropriate time horizon. The use of performance fees for these types of investments (where manager skill is a key driver of expected returns) is quite common. The Trustee and Fiduciary Manager recognise the incentives created by such fee structures and are comfortable with them given the highly active nature of these individual strategies, and in the context of the Scheme's wider investment portfolio where the aggregate use of these fee structures is very limited.

The Fiduciary Manager is also responsible for managing the sustainability of the portfolio and how ESG factors are allowed for in the portfolio. The Trustee's view is that ESG factors can have a significant impact on investment returns, particularly over the long-term. As a result, the Trustee believes that the incorporation of ESG factors is in the best long-term financial interests of its members. The Trustee has appointed a Fiduciary Manager who shares this view and has embedded the consideration of ESG factors in its processes. The Trustee incorporates an assessment of the Fiduciary Manager's performance in this area as part of its overall assessment of the Fiduciary Manager's performance.

The Fiduciary Manager's process for selecting, monitoring and de-selecting managers explicitly and formally includes an assessment of a manager's approach to SI (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). Where ESG factors are particularly influential to outcomes, the Fiduciary Manager engages with investment managers to improve their processes.

For example, through its investment in the Core Diversified Fund, the Fund also manages risk and considered ESG integration in its investment processes and strategies through a Global Prime Real Estate strategy which has introduced climate filters as an explicit screen in the investment process following direct engagement with the manager.

Industry wide / public policy engagement

As mentioned in the SIP, the Fiduciary Manager has partnered with EOS at Federated Hermes ("EOS") for a number of years to enhance its stewardship activities. One element of this partnership is undertaking public policy engagement on behalf of its clients (including the Trustee). This public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. The Fiduciary Manager represents client policies/sentiment to EOS via the Client Advisory Council, of which its Head of Stewardship currently chairs. It applies EOS' services, from public policy engagement to corporate voting and engagement, to several of its funds.

Some highlights from EOS' activities over the calendar year 2023:

- Engagements with 1,041 companies on a total of 4,272 issues and objectives.
- 31 responses to consultations or proactive equivalents and 90 discussions with relevant regulators and stakeholders.
- Voting recommendations in relation to over 128,101 resolutions with 22,716 against management.
- Active participation in a range of global stewardship initiatives

The Fiduciary Manager is also engaged in a number of industry wide initiatives and collaborative engagements including:

- Becoming a signatory to the 2020 UK Stewardship Code in the first wave;
- Co-founding the Net Zero Investment Consultants Initiative with eleven other investment consultants in 2021, with a commitment across its global Investment business;
- Joining the Net Zero Asset Managers Initiative in 2021, committing 100% of its discretionary assets;
- Being a signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee;
- Being a member of and contributor to the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC);
- Founding the Coalition for Climate Resilient Investment (with the World Economic Forum);
- Co-founding the Investment Consultants Sustainability Working Group;
- Continuing to lead collaboration through the Thinking Ahead Institute and Willis Research Network;
- Being a founding member of The Diversity Project; and
- Being an official supporter of the Transition Pathway Initiative.

Company level engagement and rights attached to investments (including voting)

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager, and in turn to the Scheme's investment managers. The day-to-day integration of ESG considerations and stewardship activities (including consideration of all relevant matters, voting and engagement) are delegated to the Scheme's investment managers.

Through the engagement undertaken by the Fiduciary Manager, the Trustee expects investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital as applicable to their mandates. The Fiduciary Manager considers the investment managers' policies and activities in relation to ESG and stewardship both at the appointment of a new manager and on an ongoing basis. The Fiduciary Manager engages with managers to improve their practices and may terminate a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the Scheme Year.

The Scheme is invested across a diverse range of asset classes which carry different ownership rights, for example fixed income whereby these holdings do not have voting rights attached. Therefore, voting information was only requested from the Scheme's managers with a significant equity holding as here there is a right to vote as an ultimate owner of a stock. Responses received are provided in the table below. Where managers provided multiple examples of votes, those deemed most significant by the Trustee have been shown below. The Trustee has endeavoured to select "significant" votes which align with the Trustee's identified priorities for voting and engagement – climate, nature and health – where the data has allowed.

During the Scheme Year, the Scheme's equity holdings were accessed via one pooled fund:

- Towers Watson Core Diversified Fund - seeks to provide cost effective diversification by making extensive use of WTW's innovative research into passive and smart beta (i.e., ways to get cheaper and more liquid exposure to some traditionally actively managed strategies) opportunities across multiple asset classes and markets, including allocations to equity pooled funds.

The Trustee used the following criteria to determine the most significant votes:

- Trustee's stewardship priorities (climate, nature, health)
- Financial outcome for members, including size of holding
- High profile vote

Towers Watson Investment Management – Core Diversified Fund

Voting activity over the year

Voting activity over the year

Number of votes eligible to cast: 41,990
Percentage of eligible to cast: 95.7%

▪ For: (85.7%) ▪ Against: (14.2%) ▪ Abstain: (0.1%)

Significant vote

Company: Alphabet

% Fund: 1.1%

Vote topic: Report on risks of doing business in countries with significant human rights concerns

Issue: Transparency related to business conducted in places with significant human rights concerns

Voting instruction: For management resolution

Outcome: Failed the resolution

Why a significant vote? The manager believes transparency on country risk is a non-controversial proposal and serves both Social and Governance interests

Next steps: The manager will vote for similar measures in the future

Significant vote

Company: Berkshire Hathaway Inc.

% Fund: 0.3%

Vote topic: Report if and how company will measure, disclose and reduce greenhouse gas emissions

Issue: Shareholder proposal promotes better management of ESG opportunities and risks

Voting instruction: For management resolution

Outcome: Failed the resolution

Why a significant vote? Vote against management, large holding in portfolio

Next steps: None to report

Voting policy: As TWIM manages Fund of Funds, the voting rights for the holdings are the responsibility of the underlying managers. The manager expects all of their underlying managers who hold equities over a reasonable timeframe to vote all shares they hold. The manager has appointed EOS at Federated Hermes (EOS) to provide voting recommendations to enhance engagement and achieve responsible ownership. EOS also carries out public policy engagement and advocacy on behalf of all of their clients. In addition, EOS is expanding the remit of engagement activity they perform on the manager's behalf beyond public equity markets, which will enhance stewardship practices over time.

The information below sets out Towers Watson Investment Management's ("TWIM") voting policy together with a summary of the voting activity within the TWIM Core Diversified Fund. This data represents activity over the Scheme Year. Through the Scheme's investment in the TWIM Core Diversified Fund, there was also an allocation of equity holdings held with State Street Global Advisers ("SSgA") during the Scheme Year and an active manager in a China Equity Fund. The voting policies of each of these managers are set out in the appendix.

Other matters

In relation to investment factors, the Trustee has identified several risks which it seeks to manage and monitor, in conjunction with the Fiduciary Manager. Solvency and mismatch risk, investment manager risk, liquidity risk, and interest rate and inflation risks have been discussed above in the relevant sections on investment strategy and investment managers. The Fiduciary Manager reported to the Trustee on each of these risks in quarterly meeting papers which were discussed at the Trustee's quarterly meetings.

In addition to these risks, the Trustee also seeks to measure and manage:

- <u>Currency risk:</u> Some of the Trustee's investments are denominated in a different currency to the Scheme's liabilities which creates a mismatch. The Fiduciary Manager managed the Scheme's exposure to foreign currencies within guidelines set by the Trustee. Currency hedging was implemented via investing in GBP-hedged share classes for overseas denominated funds. Throughout the year, the Fiduciary Manager left a small proportion of the

Scheme's foreign currency exposure unhedged for reasons of diversification and return generation. The Fiduciary Manager monitored the Scheme's unhedged exposures on a regular basis and reported this to the Trustee as part of its quarterly meeting papers.

- Custodial risk: The Scheme is exposed to the risk that any assets held on the custodian's balance sheet could be lost if the custodian was to become insolvent. The Trustee addressed this by investing in pooled funds where the Scheme's assets are held by a separate custodian appointed by the manager. In addition, any uninvested cash was swept into a pooled cash fund at the custodian where the assets are held off the custodian's balance sheet. In addition, the Fiduciary Manager's specialist research team reviews the custodian on a regular basis.

- Political risk: The Trustee recognises that the value of the Scheme's assets may be impacted by political regimes and actions, particularly in less established/ more opaque markets. Throughout the year, the Scheme's portfolio remained well diversified by geography, and managed within geographical constraints specified in the Fiduciary Manager's guidelines. The Fiduciary Manager considers political risk when determining whether to allocate capital to an investment and also in determining the relative sizing of an investment.

- Sponsor risk: The Trustee receives and evaluates information relating to the Sponsor covenant on a regular basis. The Trustee has agreed a contribution and funding schedule with the Sponsor.

Conclusion

The Trustee considers that all SIP policies and principles were adhered to during the year.

Appendix 1: Manager voting policies

SSgA’s voting policy is provided below

SSgA retains Institutional Shareholder Services Inc. (“ISS”), a firm with expertise in proxy voting and corporate governance. SSgA utilises ISS’s services in three ways. First, as SSgA’s proxy voting agent, ISS provides SSgA with vote execution and administration services. Second, ISS applies SSgA’s Proxy Voting Guidelines where appropriate. Lastly, ISS provides the highest level of research and analysis related to general corporate governance issues and specific proxy items.

Corporate governance and sustainability issues are an integral part of SSgA’s investment process. SSgA engage with companies to provide insight on the principles and practices that drive their voting decisions. They also conduct proactive engagements to address significant shareholder concerns and environmental, social, and governance (“ESG”) issues in a manner consistent with maximizing shareholder value.

SSgA is a signatory to the United Nations Principles for Responsible Investment (“UNPRI”). They are committed to sustainable investing and are working to further integrate ESG principles into investment and corporate governance practices where applicable and consistent with their fiduciary duty.

The active manager – China equity’s voting policy is provided below

“[We use] Glass Lewis as proxy voting service vendor to process votes on resolutions of investment companies in their shareholders’ meetings. The service platform allows us to source voting ballots from multiple custodians, provide voting research papers with detailed analysis and recommendations it also allows us to submit voting decisions in an efficient centralised manner. It also possesses a reporting function on voting data in various formats which is helpful in reporting to our clients.”