# Statement of Investment Principles
# P&O Princess Cruises Pension Scheme – DC Section
July 2024

## Introduction

1 This document is the Statement of Investment Principles (the "SIP") for the Defined Contribution ("DC") Section and describes the DC investment policy pursued by the Trustee of the P&O Princess Cruises Pension Scheme (the "Scheme").

2 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme operates a Defined Benefit ("DB") Section (with an attaching money purchase Additional Voluntary Contribution ("AVC") policy) which is closed to future accrual and a DC Section which was set up from 1 June 2016 for active members of the DB Section as at 31 May 2016. The DC Section is open to future contributions for this population, but the Scheme is fully closed to new hires. This SIP purely relates to the DC elements of the Scheme.

3 The Scheme is a registered pension scheme under the Finance Act 2004.

4 The DC Section is operated though a bundled provider, Scottish Widows, who provides administration, investment and communication services.

5 There is an AVC policy with Standard Life which enabled members of the DB Section to pay additional contributions on a money purchase basis. This policy closed to contributions from 1 June 2016.

6 The purpose of this SIP is to document those investment principles, guidelines and procedures which are appropriate for the Scheme, in a manner consistent with the requirements of the Pensions Act 1995 ("the Act") and the Pensions Act 2004 ("the 2004 Act").

7 The Scheme's Trustee ("the Trustee") has received advice from its investment adviser (WTW) and consulted Carnival Plc (the Company) regarding this SIP as required by the Act.

8 When choosing investments, the Trustee and the investment managers, to the extent delegated, are required to have regard to the criteria for investment set out in the Occupations Pension Scheme (Investment) Regulations 2005 and the principles contained in this SIP.

9 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed investment managers, which may include an insurance company or companies. The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

10 The Pensions Regulator has a number of regulatory tools, including issuing Codes of Practice to enable it to meet its statutory objectives. Codes of Practice provide practical guidelines on the requirements of pensions legislation. This SIP has been drafted in the light of the DC Code of Practice and specifically its recommendations relating to the content of Statements of Investment Principles generally.

## Investment objectives

11 The Scheme's main investment objectives are:

- To ensure the individual fund options are suitably invested and managed to maximise the return commensurate with an acceptable level of risk.

- To provide members with a diversified range of investment options designed to give members the freedom to structure their own investment policy to suit their individual risk, return, liquidity and funding requirements.

## Investment policy

12 The Trustee's policy is to seek to achieve its investment objectives through offering a suitable mixture of asset classes and funds. Pooled funds are made available across the main asset classes, reflecting the changing requirements of members as they progress towards retirement.

13 The Trustee makes available three lifestyle strategies where members' investments are initially allocated to a passively implemented diversified growth fund and are progressively switched into lower risk investments as retirement approaches. Each lifestyle strategy is focused towards a different retirement outcome – annuity purchase, cash withdrawal and drawdown, and reflect these target outcomes in their asset allocations at retirement.

14 In moving members automatically into the DC Section, the Trustee had to have in place a default investment option for members who did not wish to make an investment decision. The Trustee has selected the **drawdown focused** lifestyle strategy as the Scheme's default strategy. The objective of this lifestyle strategy is to generate capital growth over the long term through investing in a diversified portfolio that provides an appropriate balance between risk and return. In the 5 years prior to retirement, the strategy aims to reduce the volatility of the member's expected pension fund by investing in bonds and cash. This option is designed mainly for members looking to use their retirement account to maintain investment growth at retirement age and move to a drawdown arrangement which allows members to take income as and when required. At a member's target retirement date, there is a 70% allocation to a passively implemented diversified growth fund, 15% allocation to bonds and 15% allocation to cash.

15 In designing both the default strategy and the other investment options under the Scheme, the Trustee in conjunction with their investment advisers gave in-depth consideration to the Scheme's demographic profile and the retirement outcome needs and risk tolerance of the membership. Due consideration was also given to charge cap compliance.

*Policy on illiquid assets*

16 The default strategy does not include a direct allocation to illiquid assets i.e. investments which cannot easily or quickly be sold or exchanged for cash. However, at the discretion of the investment manager there may be an allocation to illiquid assets within the L&G Diversified Fund (a core component of the default strategy which holds the vast majority of DC assets in the Scheme). Currently, the L&G Diversified Fund has some exposure to illiquid assets through investments in property and private debt, which collectively make up less than 10% of the fund as at the date of this SIP. The level of illiquid assets held within the fund may increase or decrease depending on the views of the manager, although it is important to note that the fund remains daily dealt allowing members to realise their investments quickly when requested.

17 The Trustee believes long-term risk-adjusted net investment returns may be improved by investing in illiquid assets. However, having considered the largely maturing age profile of the membership (including analysis suggesting two thirds of members are within ten years of their selected retirement date) and the relatively small and declining overall value of DC assets in the Scheme, the Trustee concluded that a direct allocation to illiquid investments would not be appropriate at the current time. However, the Trustee is comfortable with the indirect exposure through investing in the L&G Diversified Fund as members may experience some of the likely benefits of investing in these assets whilst still retaining daily liquidity.

18 The Trustee has no current plans to introduce direct investments in illiquid assets in the future. However, the Trustee continues to keep this developing area under review and will regularly consider whether the incorporation of direct illiquid investments is appropriate.

## Risk management

19 The Trustee recognises a number of risks involved in the investment of assets of the Scheme, including:

- **Capital risk** – the risk that the value of the investment will fall in value over any period of time. The Trustee has made available a cash fund for the purpose of managing this risk.

- **Inflation risk** – the risk that the contributions fail to provide an adequate amount of benefit. This could be by failing to achieve an adequate amount of return in excess of price inflation commensurate with the term of investment. The Trustee has made available equity funds for the purpose of managing this risk.

- **Manager risk** – addressed through ongoing monitoring of the investment managers as set out in on page 5.

- **Pension conversion risk** – the risk that the value of a member's account does not reflect the change in the cost of purchasing an annuity at retirement. The Trustee has made available an index-linked bond fund for those members wanting an annuity that increases during retirement and a fund which is specifically designed to track changes in the price of a level (i.e. non-increasing) annuity.

- **Currency risk** – where members invest in funds with an exposure to overseas securities, there will be an element of currency risk as these securities are converted back into Sterling. The Global Equity 30/70 Index Fund has an element of currency hedging to address this risk.

- **Contribution shortfall risk** – the risk that members do not contribute sufficiently to the Scheme and are therefore left with an inadequate pension at retirement. This is a difficult risk for the Trustee to address as all members' circumstances will be different, and most members will have significant DB service within the Scheme.

- **Political risk** - the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

- **Liquidity risk** – the risk that assets are not easily realisable such that cash is not readily available to meet cash flow requirements. The Trustee has had regard to this in selecting appropriate funds.

20 The Trustee continues to monitor these risks on a regular basis.

## Member investment options

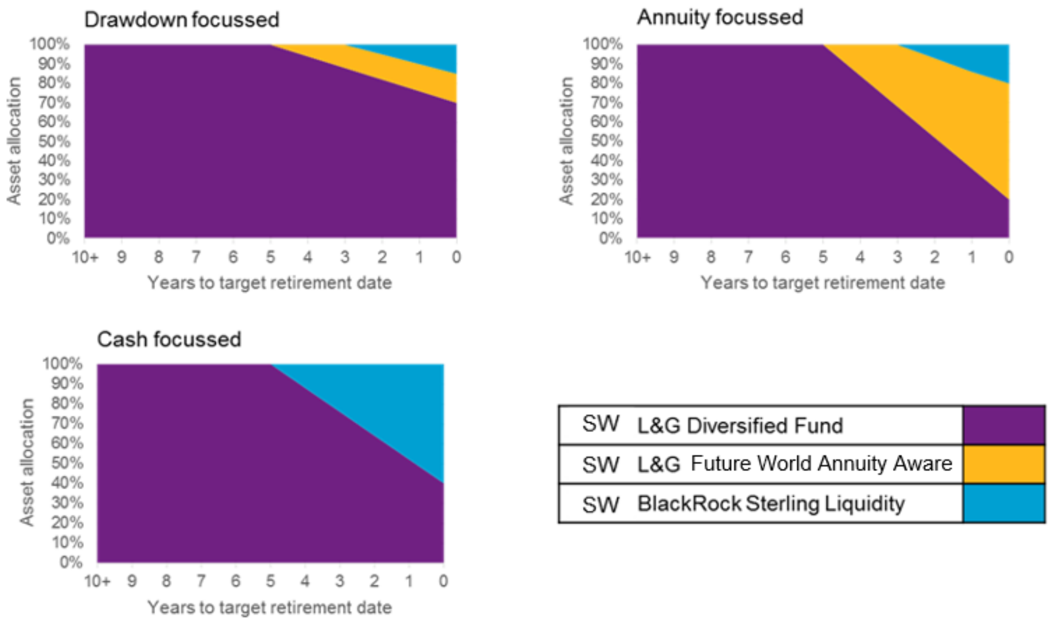
21 Based on the Trustee's investment objectives, the Trustee has selected a range of investment options available to members. Contributions are invested with BlackRock and Legal & General

Investment Management ("LGIM") through the bundled arrangement with Scottish Widows, which aim to track the performance of their respective benchmarks.

22 The fund options are shown in the table below:

| **Asset class** | **Fund** | **Objective and Benchmark** | **Total Annual Charge** |
|---|---|---|---|
| Diversified | SW Legal & General Diversified CS2 | The investment objective of the fund is to provide long-term investment growth through exposure to a diversified range of asset classes | 0.47% |
| Equities | SW Aquila 30/70 Currency Hedged Global Equity Index CS1 | This fund invests primarily in equities, both in the UK and overseas markets. The fund has approximately 30% invested in the shares of UK companies, 60% in developed markets, the remaining 10% is invested into emerging market equities. Any non-sterling exposure is hedged back to sterling. | 0.34% |
| | SW Aquila Emerging Markets Equity Index CS1 | The fund aims to achieve a return consistent with the MSCI Global Emerging Markets Index | 0.48% |
| | SW Legal & General Future World Global Equity Index Fund | The investment objective of the fund is to track the performance of the Solactive L&G ESG Global Markets Index (less withholding tax where applicable) to within +/-0.60% p.a. for two years out of three. | 0.37% |
| Fixed Interest | SW L&G Future World Annuity Aware Fund CS1 | The fund aims to improve potential outcomes for investors likely to purchase fixed annuities by providing a diversified exposure to assets that reflect the broad characteristics of investments underlying a typical traditional level annuity product, incorporating Environmental, Social and Governance ("ESG") considerations as part of the investment strategy | 0.31% |
| Index-linked | SW Aquila Index-Linked Over 5 Year Gilt Index CS1 | This fund invests in UK government index-linked securities (index-linked gilts) that have a maturity period of 5 years or longer. The fund aims to achieve a return consistent with the FTSE UK Gilts Index-Linked Over 5 Years Index, which is widely regarded as the benchmark for UK pension fund investment in the longer dated end of the UK index-linked gilt market. | 0.27% |
| Cash | SW BlackRock Sterling Liquidity CS1 | The fund aims to achieve an investment that is in line with wholesale money market short-term interest rates. Specifically, the fund will aim to better the return of Seven Day LIBID before fees. | 0.27% |

Details of the three lifestyle strategies are contained below:




**Legacy AVCs**

23 There is a legacy AVC policy with Standard Life which closed to contributions from 1 June 2016. The funds are managed by BlackRock and Standard Life. The charges for these funds comprise of a standard Annual Management Charge (AMC) of 1.00% p.a. and variable additional expenses minus a Scheme discount which can vary on a monthly basis and is dependent on a number of factors. The charges also may differ for members joining the Scheme on or before 23 February 2002 or where fund values are above £10,000.

**Fee basis**

24 Members bear the management charges on the funds in which they invest which cover the provision of administration, communication and investment services. These fees are charged by an adjustment to the unit prices within the funds, calculated daily on the value that day. The Trustee believes the charging structure is appropriate and in line with standard market practice.

25 Under this fee structure, investment managers are 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.

26 The Trustee reviews the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover, including regular engagement with investment managers on this subject and through the receipt of costs and charges reporting. There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold by investment managers) which the Trustee adheres to. The Trustee, with the help of the investment adviser, will monitor that the level of portfolio turnover remains appropriate in the context of the Investment Manager's strategy and the Scheme's investment strategy.

## Monitoring and reviewing investments

27 The Trustee will regularly monitor Scottish Widows and Standard Life (as the investment platform providers) and the underlying managers to satisfy itself that all parties continue to carry out their work competently, cost-effectively and have the appropriate knowledge and experience to manage the DC investments of the Scheme.

**Monitoring investment performance**

28 The funds the Trustee has made available to members through the Scottish Widows platform are all passively managed index tracking funds (with the exception of the Cash Fund and the Diversified Fund). The Trustee receives regular performance monitoring data from Scottish Widows on a quarterly basis. Due to the passive nature of the funds, the Trustee will monitor investment performance insofar as to ensure they are tracking the relevant indices within a reasonable level of tolerance which will be determined by the investment adviser. Any tracking errors outside of the tolerance level will be raised with Scottish Widows in the first instance. If a fund continually fails to meet its benchmark over a period of time, the Trustee reserves the right to replace the fund with an appropriate alternative.

The Trustee undertakes qualitative monitoring of the Diversified Fund as it involves an element of strategic asset allocation albeit within a passive fund framework.

29 In relation to the AVCs, the Trustee undertakes a proportionate approach and reviews investment performance on at least an annual basis.

**Reviewing the investment options under the Scheme**

30 The Pensions Regulator expects trustees to regularly review their investment fund ranges and consider the demographics of the membership when doing so.

31 The Trustee will undertake a strategic review of the investment options including the default arrangement at least every three years and will consider the profile of the membership, any regulatory developments and the quality of the funds when undertaking its review. The last review was undertaken in November 2022.

**Investment manager monitoring**

32 The continuing suitability of the Scheme’s investment managers will be reviewed by the Trustee at least annually. The review will be based on the results of the Trustee’s regular monitoring of the investment managers’ performance and investment processes and their compliance with the requirements of the 2004 Act concerning diversification and suitability of investments, where relevant. Scottish Widows and Standard Life have been provided with a copy of this SIP.

## Sustainable investing

33 The Trustee takes account of financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within a risk management framework, which takes account of members’ investment time horizons and objectives. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (“ESG”) considerations, including climate change, in the context of this broader risk management framework.

34 When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations, but has identified climate, nature and health as three areas of focus for the Scheme, and consequently, these are key areas of focus for the Trustee. The Trustee assesses that ESG risks, and in particular climate change, pose a financial risk to the Scheme and that focussing on these issues is ultimately consistent with the Trustee's fiduciary duties and the financial security of its members. Whilst the Trustee's policy is to delegate stewardship activities to the investment managers, the Trustee recognises that the responsibility for these activities remains with the Trustee. The Trustee incorporates an assessment of how well the investment managers exercise these responsibilities on an annual basis.

35 Additionally, when considering the appointment of new investment managers, and reviewing existing investment managers, the Trustee, together with their investment adviser, look to take account of the approach taken by investment managers with respect to sustainable investing including engagement and voting policies where relevant.

36 Member views on non-financial matters are not currently taken into account. However, the Trustee has provided members with one fund that is managed with reference to social, environmental or ethical considerations within the self-select fund range, namely the L&G Future World Global Equity Index Fund. This fund utilises L&G's Future World methodology for screening certain stocks that fail to meet a set of criteria and tilting towards or away from stocks based on their ESG credentials.

**Rights attaching to investments**

37 The Trustee's policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers, via their investment adviser, to comply with the UK Stewardship Code or explain where they do not adhere to this policy.

## Relationship with investment managers

38 The Trustee uses different managers to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this SIP, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. These considerations also apply in the appointment process of new investment managers and arrangements.

39 To maintain alignment, investment managers are provided with the most recent version of the Scheme's SIP on an annual basis to ensure managers are aware of the Trustees' expectations regarding how the Scheme's assets are being managed.

40 Should the Trustee's monitoring process reveal that an investment manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the investment manager to ascertain the reasons for this and whether closer alignment can be achieved. This monitoring process includes, but is not limited to, specific consideration of the sustainable investment/ESG characteristics of the fund and the investment managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the Trustee may consider alternative options available in order to consider terminating and replacing the investment manager.

41 For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee may select certain investment funds

where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making.

42 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing an investment manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate an investment manager's appointment based purely on short term performance. However, an investment manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

## Compliance and review of this statement

43 The Trustee will monitor compliance with this SIP annually.

44 The Trustee will review this SIP in response to any material changes to any aspects of the Scheme, its membership profile and the attitude to risk of the Trustee, which it judges to have a bearing on the stated investment policy.

45 This review will occur no less frequently than every three years or at the time of any changes to the fund range. Any such review will be based on written expert investment advice and the Company will be consulted.