Carlton Tower Pension Scheme (the “Scheme”)

Statement of Investment Principles (the “Statement”)

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is 9 September 2024. The Trustee will review this Statement and the Scheme’s investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

Consultations made

The Trustee has consulted with the employer, Carlton Tower Limited, prior to writing this Statement and will take the employer’s comments into account when it believes it is appropriate to do so.

The Trustee is responsible for the investment strategy of the Carlton Tower Pension Scheme. The Trustee has obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Investments Limited (“Aon”) who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Scheme's assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement is available to the members of the Scheme.

Objectives and policy for securing objectives

The Trustee's primary objectives are:

- “funding objective” - to ensure that the Scheme is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;

- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the Scheme’s investment strategy; and

- “security objective” – to ensure that the solvency position of the Scheme is expected to improve. The Trustee will take into account the strength of employer’s covenant when determining the expected improvement in the solvency position of the Scheme.

The Trustee recognises that these objectives may conflict. For example, a greater allocation to more defensive assets may give greater security but may result in a level of contributions which the employer may find too difficult to support. The Trustee also recognises that, in resolving this conflict, it is necessary to accept some risk.

The investment strategy chosen by the Trustee has the aim of maximising the likelihood of achieving these objectives.

Choosing investments

The types of investments held and the balance between them are deemed appropriate given the liability profile of the Scheme, its cash flow requirements, the funding level of the Scheme and the Trustee's objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The Trustee exercises its powers of investment (or delegation where these powers have been delegated to an investment manager) in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to match the liabilities of the Scheme (as measured on the Technical Provisions basis) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly on regulated markets (with investments not in regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The balance between different kinds of investments

The Trustee recognises that the key source of financial risk (in relation to meeting its objectives) arises from asset allocation.

The Trustee therefore retains responsibility for setting asset allocation and takes expert advice as required from its professional advisers.

The Trustee is mindful that some of the investment managers have discretion to invest in a range of underlying asset classes and that the underlying asset allocation varies over time. As a result the Scheme's actual asset allocation depends, in part, on the views of the underlying investment managers appointed by the Trustee. The Trustee takes account of this when setting the Scheme's investment strategy, as detailed in the Appendix, and regularly monitors the balance of the overall strategy and seeks to make adjustments, as and when necessary.

The Trustee reviews its investment strategy following each formal actuarial valuation (or more frequently should the circumstances of the Scheme change in a material way). The Trustee takes written advice from its investment adviser regarding an appropriate investment strategy for the Scheme, taking into account the liability profile and funding level of the Scheme and the size and incidence of employer contributions.

The asset allocation set out in the Appendix is reviewed regularly by the Trustee after considering advice from its investment adviser.

A broad range of available asset classes has been considered. This includes consideration of so called “alternative” asset classes, for example property, property debt, private equity, hedge funds, senior secured loans and Liability Driven Investment funds.

Investment risk measurement and management

The key investment risks are recognised as arising from asset allocation. The asset allocation is assessed regularly and at least triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustee takes advice on the continued appropriateness of the existing investment strategy.

Risks associated with changes in the employer covenant are assessed by monitoring the insolvency risk score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy). The Trustee also has an undertaking with the employer to receive notification of any events which have the potential to materially alter the creditworthiness of the sponsoring employer. In particular, the Trustee will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator and employer-related Notifiable Events. On receipt of such notification, the Trustee will re-consider the continued appropriateness of the Scheme’s existing investment strategy.

The Trustee monitors the risks arising through the selection or appointment of managers on a quarterly basis via investment monitoring reports prepared by their professional advisors The Trustee expects its investment adviser to alert it on any matters of material significance that might affect the ability of each manager to achieve its objectives.

Custody

Investment in pooled funds gives the Trustee a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the funds’ assets.

The custodians are independent of the employer.

Expected returns on assets

Over the long-term the Trustee’s expectations are:

- for the “growth” assets (asset-backed securities, absolute return bonds, bank capital relief, property and property debt), to achieve a return significantly in excess of the rate of borrowing (i.e. repo finance) within the LDI portfolio. The Trustee is willing to incur short-term volatility in asset price behaviour with the expectation that over the long term these assets will improve the Scheme’s funding position;

- for the “matching” assets (LDI) to achieve a rate of return which is broadly in line with changes in the cost of providing annuities (i.e. the Scheme's solvency liabilities);

Projected annual investment returns taken from Aon's Capital Market Assumptions as at 31 March 2024 were: 6.7% pa for US equities, 6.2% pa for UK equities, 5.7% pa for US high yield, 6.6% pa for UK real estate, 4.4% pa for 10-year UK investment grade corporate bonds, 3.4% pa for 15-year UK index-linked gilts and 2.3% pa for price inflation (CPI).

Returns achieved by the managers are assessed against performance benchmarks set by the Trustee in consultation with its advisers and managers.

Realisation of Investments/Liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise. The majority of the assets held are realisable at short notice through the sale of units in pooled funds.

However, the Trustee has made commitments to a property debt fund, a property fund and to a bank capital relief fund, none of which offer a redemption facility during the life of the fund. Some of these funds are currently calling capital to fund investments.

Social, environmental or ethical considerations

The Trustee's primary concern when setting the investment strategy is to act in the best financial interests of the beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee believes that, in order to fulfil this commitment and to protect and enhance the value of the Scheme’s investments, it must act as a responsible steward of the investments.

The Trustee acknowledges that financially material considerations include environmental, social and corporate governance (ESG) factors, such as climate change. Understanding these factors can help identify investment opportunities and financially material risks.

As part of its delegated responsibilities, the Trustee expects the investment managers to include ESG considerations in the selection, retention and realisation of investments. Such decisions should consider, amongst other things, the sustainability of business models and not be influenced by personal, ethical or moral judgments.

The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee will undertake periodic training on Responsible Investment to understand how ESG factors, including climate change, may impact on the Scheme's assets and liabilities.
- As part of ongoing monitoring, the Trustee will use information, where available, provided by Aon of their assessment of the investment managers against ESG factors.
- Should the Trustee look to appoint a new investment manager, they will ask the manager to provide their policy on Responsible Investment as part of the selection process. All responses will be reviewed and monitored.

Effective decision making

The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. It also recognises that where it takes investment decisions, it must have sufficient expertise and appropriate training to be able to evaluate critically any advice it takes.

The Trustee believes that given the size of the Scheme and the small number of Trustee Directors, a separate investment sub-committee would not be appropriate. Therefore, all investment decisions are discussed by the whole Trustee body before decisions are taken. The Trustee seeks assistance from its investment adviser where it deems it to be necessary.

Stewardship - voting and engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure high standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the scheme and its beneficiaries.

The Trustee has delegated all voting and engagement activities to the investment managers. The Trustee accepts responsibility for the way in which the managers steward assets on its behalf, including the casting of votes in line with each manager's voting policy.

The Trustee regularly reviews the suitability of the Scheme's appointed investment managers and takes advice from its investment adviser regarding any changes. Where applicable, this advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee expects, the Trustee undertakes to engage with the manager and seek a more sustainable position and may look to replace the manager.

The Trustee reviews the stewardship activities of the investment managers on an annual basis, covering both engagement and voting actions, and will include this information within the Engagement Policy Implementation Statement (EPIS). The Trustee will review the alignment of its policies to those of the investment managers and look for the investment managers, or other third parties, to use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Trustee will engage with the investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure and management of actual or potential conflicts of interest. When a concern is identified, the Trustee will engage with its investment adviser to consider the methods by which, and the circumstances under which, it will monitor and engage with the investment managers and other stakeholders.

Members' views and non-financial factors

The Trustee does not explicitly take the views of members and beneficiaries of the Scheme into account in relation to ESG factors or the present and future quality of life of the members and beneficiaries of the Scheme (defined as 'non-financial factors' in the 2018 Regulations). The Trustee will review this policy periodically.

Arrangements with investment managers

The Trustee monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies.

Where the Scheme invests in funds that are regularly reviewed by the Trustee's investment adviser, the Trustee uses conclusions drawn from these assessments on a quarterly basis to determine whether the funds and investment managers remain suitable.

Where the Scheme invests in funds that are not regularly reviewed by the Trustee's investment adviser, the Trustee reviews these funds on an annual basis and conducts a review of the strategy, with the support of the investment adviser.

The above monitoring includes the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee receives quarterly reports and verbal updates from its investment adviser on various items including the investment strategy, performance and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives and assesses the investment managers over the long-term.

In line with the required actions from the Pensions Regulator, on an annual basis the Trustee will produce an EPIS which will also be included in the annual reports and accounts.

Before appointment of a new investment manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express its expectations to the investment manager.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers (where possible), and regular monitoring of investment managers' performance and investment strategy, is sufficient to incentivise the investment managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial performance.

Where investment managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment for all investment managers will be reviewed if material causes for concern are identified. Where the Scheme holds closed ended vehicles, the duration is usually defined by the nature of the underlying investments.

Cost monitoring

The Trustee is aware of the importance of monitoring the investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, other costs will be incurred by their investment managers that will increase the overall cost incurred by their investments.

The Trustee uses ClearGlass, a not for profit entity, to collate cost data to facilitate monitoring portfolio turnover costs and engaging with investment managers as required. The Trustee works with its investment adviser and investment managers to understand these costs in more detail where required.

The Trustee is aware of portfolio turnover costs (portfolio turnover costs are defined as the costs incurred as a result of the buying, selling, lending or borrowing of investments) associated with its underlying investments through the information provided by its investment managers. The monitoring of the target portfolio turnover and turnover range is monitored annually with the assistance of the investment adviser.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable if consistent with the asset class characteristics and manager’s style and historic trends. Where the Trustee's monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustee is supported in cost transparency monitoring activity by the investment adviser.

The Trustee assesses the performance of their investment managers on a quarterly basis and the remuneration of their investment managers on an annual basis.

Additional Voluntary Contributions ("AVCs") arrangements

Some members have obtained further benefits by paying AVCs to the Carlton Tower Voluntary Pension Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. Details of AVC providers and fund options are included in the Appendix to this Statement.

From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

Carlton Tower Pension Trustees Limited.

Carlton Tower Pension Scheme (the "Scheme")

Appendix to Statement of Investment Principles

This Appendix sets out the Trustee's current investment strategy and is supplementary to the Trustee's Statement of Investment Principles (the "attached Statement").

The Trustee's investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the attached Statement. The details are laid out below:

1. Asset allocation strategy

Asset Class	Weight (%)	Range (%)
Real Estate Debt	5	n/a
Real Estate	10	n/a
Absolute Return Bonds	30	15 – 45
Bank Capital Relief	10	n/a
Liquid Asset Backed Securities (ABS)	5	0-10
Liability Driven Investment Funds	40	25 – 55
Total	**100**	**-**

The Trustee aims to hedge approximately 95% of the liabilities of the Scheme, based on estimates of the value of securing annuities.

Note that the Real Estate Debt, Real Estate and Bank Capital Relief asset classes are accessed via closed-ended funds and therefore the Trustee has no control over the ongoing allocations. As these asset classes either call or distribute capital, the actual weights may differ significantly from the weights shown in the above table.

2. Investment management arrangements

The Trustee has appointed Aon Investments Limited (AIL), Chorus Capital Management Limited (Chorus), Intermediate Capital Group Longbow (ICG Longbow), Insight Asset Management (Insight) and Townsend Group (Townsend) to manage the Scheme's assets. The following table describes the mandates given to the investment managers.

2.1 Real Estate Debt

Manager/Fund	Performance measurement Benchmark	Weight (%)	Target
ICG Longbow Real Estate Debt Fund V	6% pa	5%	7.5% pa

2.2 Property

Manager/Fund	Performance Measurement Benchmark	Weight (%)	Target
Townsend Real Estate Alpha Fund III	6% pa	10%	12 – 14% pa

2.3 Absolute Return Bonds

Manager/Fund	Performance Measurement Benchmark	Weight (%)	Target
AIL Low Risk Bonds Fund	SONIA	30%	+ 1% pa net of fees

2.4 Bank Capital Relief

Manager/Fund	Performance Measurement Benchmark	Weight (%)	Target
Chorus Capital Fund V	6% pa	10%	8-10% pa net of fees

2.5 Liquid ABS

Manager/Fund	Performance Measurement Benchmark	Weight (%)	Benchmark Outperformance Target
Insight Liquid ABS Fund	SONIA	5%	Outperform benchmark

2.6 Liability Driven Investment Funds

Manager/Fund	Performance Measurement Benchmark	Weight (%)	Benchmark Outperformance Target
Insight (A range of Gilt and Index-Linked Gilt Funds)	Relevant gilt comparator benchmark for each fund	40% in aggregate	To broadly match the Scheme's solvency liabilities

2.7 Cash balances

A working balance of cash is held for the imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustee's intention to hold a significant cash balance and this is carefully monitored by the Trustee.

2.8 Re-balancing arrangements

The Trustee reviews the Scheme's asset allocation on a quarterly basis, following which appropriate action is taken. Quarterly reports are provided by the Trustee's investment adviser within 2 months of quarter end.

The Trustee has delegated authority to Insight to transfer assets from the Liquid ABS Fund to meet LDI collateral/leverage requirements.

3. Fee structure for advisers and managers

3.1 Advisers

The Trustee's investment adviser is paid for advice received on the basis of the time spent by the adviser. For significant areas of advice (e.g. one off special jobs, or large jobs, such as asset and liability modelling), the Trustee will agree a project budget.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

3.2 Investment managers

For passive mandates, or mandates where the manager is seeking to add incremental value in excess of the performance benchmark, the investment manager is remunerated as a set percentage of the assets under management. This is in keeping with market practice.

For higher performance/higher risk mandates, the managers may also have a performance-related fee, which the Trustee believes to be appropriate given the nature of the investment objective.

3.3 Summary of investment management fee arrangements

Manager	Fund	Fee Scale (pa)	Performance Fee
ICG Longbow	Real Estate Debt	0.9% on holdings	Yes**
Insight	Liquid ABS	0.2% on holdings	No
Insight	Partially Funded Gilt Funds	0.06% on exposure value	No
Townsend	Real Estate Alpha Fund III	1.25% on holdings	Yes*
Chorus	Fund V	1.0% on holdings	Yes***
AIL	Low Risk Bonds Fund	0.15% on holdings****	No

* Townsend charge a performance fee of 10% over a preferred return of 9% pa.

** ICG Longbow charge a performance fee of 10% above a 6% hurdle rate and a 20% performance fee above a 7% hurdle rate

*** Chorus charge a 15% performance fee above a 6% hurdle with 70% catch up

****The AIL Low Risk Bond Fund is a fund of funds and therefore the underlying managers also charge annual management fees.

4. Additional Voluntary Contributions (AVCs)

The Trustee has made available funds with Aviva in respect of AVCs paid to the Carlton Tower Voluntary Pension Scheme. A policy document has been issued to the Trustee from Aviva covering the AVC investment contract.