

STATEMENT OF INVESTMENT PRINCIPLES

The effective date of this Statement is 12 September 2023

1. Introduction

The purpose of this Statement of Investment Principles (“**Statement**”) is to document the investment policy of the Trustee of the Crown Agents Superannuation Scheme (the “**Trustee**”) in relation to their management and stewardship of the investment portfolio of the Crown Agents Superannuation Scheme (the “**Scheme**”).

Regulations require trustees and investment managers to exercise their investment powers in a manner to ensure the security, quality, liquidity and profitability of a Scheme’s investments. This includes investing in a manner which considers, and is appropriate to, the nature and duration of the expected future retirement benefits of the Scheme; having regard to the need for diversification in the choice of investments for the Scheme, making sure that the Scheme’s assets are invested mainly in regulated markets and limiting any investments in the employer’s business.

The Trustee is responsible for setting the investment strategy of the Scheme and has delegated the day-to-day management of the Scheme’s assets to the Scheme’s Fiduciary Manager (the “**Fiduciary Manager**”) under an Investment Management Agreement (“**IMA**”).

The Fiduciary Manager is authorised and regulated by the Financial Conduct Authority under the Financial Services and Markets Act 2000.

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 and Disclosure) Regulations 2019.

2. Consultation and Advice

The Trustee is responsible for the investment strategy of the Scheme. They have obtained and considered advice from the Fiduciary Manager on the investment strategy appropriate for the Scheme and on the preparation of this Statement.

The Trustee has decided to invest the Scheme’s assets in a fiduciary management arrangement. Under this arrangement, the Trustee, following advice from the Fiduciary Manager, sets specific funding objectives for the Scheme and investment guidelines, with the Fiduciary Manager providing the day-to-day management of the assets in order to achieve these objectives within the guidelines specified.

The Trustee has consulted with Crown Agents Limited (the “**Employer**”) on this Statement and has taken the Employer’s comments into account when appropriate to do so.

The Scheme has two Sections:

- Crown Agents Superannuation Scheme Section 1
- Crown Agents Superannuation Scheme Section 2

The overall investment strategy is based on the aggregate of the two sections and is summarised in aggregate throughout this document.

A copy of this Statement is available on the internet.

3. Objectives

The Trustee's primary objective is to ensure the Scheme is able to pay the benefits which have been promised to its beneficiaries. The Trustee also aims to optimize the returns after taking into consideration the circumstances of the Scheme and the risk profile agreed by the Employer and the Trustee.

The investment objectives are set in relation to valuing the liabilities on the Technical Provisions basis, whilst also considering the Scheme's future cashflow requirements. The risk-free measure used to value the liabilities is based on the yields available on fixed-interest and index-linked gilts.

The Trustee's objective is to take an appropriate amount of investment risk over an agreed timeframe, such that the Scheme's investment portfolio increases in value relative to the Technical Provisions liability value until the Scheme reaches full funding.

4. Investment Strategy

The Trustee has invested the Scheme's investment portfolio in accordance with a Target Return and Target Hedge Ratio set by the Trustee which is set out in the Addendum.

The Target Return and Target Hedge Ratio are achieved by investing in a combination of return-seeking ("**Growth Assets**"), liability matching ("**Hedging Assets**") and income generating ("**Income Assets**") assets.

The Scheme also holds an insurance policy with respect to Crown Agents Superannuation Scheme Section 1 member benefits. Further detail on the Scheme's investment strategy is contained in the Addendum.

5. Investment Choice

The types of investments held and the balance between them is adjusted as necessary to match the Trustee's objectives.

5.a The types of investments held

The Trustee delegates their powers of investment to the Fiduciary Manager in a manner that is expected to ensure the security, quality, liquidity and profitability of the portfolio as a whole. The assets of the Scheme are invested predominantly in 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. The diversification is both within and across major asset classes.

Assets held to cover the Scheme's liabilities are invested in a manner appropriate to the nature and duration of the expected future retirement benefits whilst also recognising the additional return required in order to meet the funding objectives.

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.

5.b The balance between different kinds of investments

The Trustee recognises two key sources of financial risk (in relation to meeting their objectives). Firstly, the risk associated with the agreed level of investment return which the investment portfolio is tasked with delivering and, secondly, how closely the investment portfolio tracks changes in the liability value on a Technical Provisions basis.

To this extent, the Trustees have agreed the target return and target (liability) hedge ratio with the Fiduciary Manager, and as appropriate will agree how this target return and target hedge ratio should evolve over time as actual experience differs from the expected experience.

The Trustee has delegated responsibility for managing the underlying investments to the Fiduciary Manager, within the guidelines and constraints set out in the IMA. This allows the asset allocation and underlying investment managers to be adjusted quickly where needed, to best meet the investment objectives of the Scheme.

6. Risks

Regular checks are made as to whether the funding and investment strategy remain on target to achieve the objectives, within acceptable parameters. If not, then corrective action is considered (by adjusting investment policy, or through amendments to the funding arrangements).

The Trustee recognises a number of risks associated with the investment strategy and the implementation of the strategy and monitors these risks in conjunction with the Fiduciary Manager (and other providers) where appropriate.

6.a Solvency risk (the risk of not achieving the funding target in the time frame desired)

Measured through a qualitative and quantitative assessment of the current and future investment portfolios relative to the Scheme's liabilities.

The Fiduciary Manager monitors the Scheme's assets relative to the Technical Provisions liability measure on a daily basis. It prepares a written report for the Trustee every quarter detailing changes over the quarter and any actions taken.

The Scheme Actuary also prepares a written report on a triennial basis which places a value on the liabilities on the on-going technical provisions basis along with an estimate of the cost of purchasing annuity policies for the Scheme's members.

6.b Investment risk

There are many investment related risks which the Trustee is aware of. Including: manager risk; liquidity risk (i.e., the risk of being unable to realise investments for cash); the risk of holding inappropriate investments; currency risk; political risk; corporate governance risk; counterparty risk, basis risk and legal and operational risk.

To reduce these risks, the Fiduciary Manager ensures the assets are diversified across different asset classes, sectors and securities and investment managers. It regularly monitors the underlying managers' performance, processes and capabilities.

The Fiduciary Manager is also responsible for managing overall currency risk.

The Trustee also acknowledges the following investment related risks and monitor these with the support from the Fiduciary Manager and their other advisors:

- The actual return vs the Target Return. The Target Return is not guaranteed, the Scheme's investment portfolio may not evolve as expected or indeed may fall in value.
- The probability of purchasing individual annuities for members and winding up the Scheme at a future point in time could reduce if annuity prices increase (for example, due to changes in insurance regulations or changes in the assumptions used by insurers – which includes forecasting future mortality and longevity patterns).

6.c Custodian risk

Custodian banks provide secure safekeeping and trading of the assets.

This risk is measured by assessing the creditworthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

The custodian risk is managed by the Fiduciary Manager ratifying its trade reports and expected cashflows against the custodian's records. Restrictions are also applied to who can authorise cash transfers from the custody account and safeguards being in place around where any cash withdrawals are remitted.

6.d Fraud / Dishonesty

Addressed through the Fiduciary Manager having the appropriate insurance policies, and internal and external audit.

6.e Liquidity risk (ability to pay member benefits as they fall due)

The Scheme's administrator monitors monthly benefit payments and ensures sufficient cash is available to meet payments when due. The Fiduciary Manager invests predominantly in assets that can be quickly sold for cash, if necessary, although the Fiduciary Manager may invest in more illiquid assets such as private markets-based investments (with investments being kept to a prudent level).

6.f Covenant Risk

Risks associated with changes in the Employer's covenant are regularly monitored by the Trustee and assessed by various means. This includes the Employer periodically providing the Trustee with updates on its business projections and the strength of its covenant.

The Trustee will monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio.

7. Monitoring

The Trustee monitors the performance of the Scheme's assets on a quarterly basis via investment monitoring reports prepared by the Fiduciary Manager.

The Fiduciary Manager monitors the following areas on behalf of the Trustee on a daily basis:

- The funding level
- The asset allocation
- The liability hedge ratio
- The underlying investment managers
- The cash position (specifically cash held within the fiduciary management arrangements, i.e., excluding any cash held in the Trustee bank account)

Where action needs to be taken or is deemed to be sensible (for instance due to favourable/changing market conditions), the Fiduciary Manager will make appropriate changes, subject to the guidelines agreed with the Trustee. Where changes cannot be made due to the guidelines specified, and the Fiduciary Manager believes the changes would be sensible, the Fiduciary Manager will work with the Trustee to explore whether the guidelines can be adjusted and how this may impact the Scheme's investment strategy.

The Fiduciary Manager provides regular updates at Trustee meetings and provides information to other third parties at the request of the Trustee, including the Scheme's administrators and auditors.

8. Custody

Day to day control of custody arrangements for the Scheme's assets is delegated to State Street Bank and Trust Company, which is independent of the Employer and Fiduciary Manager.

In addition, as the Scheme invests in pooled funds, these funds each have a custodian. The investment in pooled funds gives the Trustee a right to the cash value of the units rather than to the underlying assets.

9. Realisation of Investments

The Trustee has delegated the realisation of investments to the Fiduciary Manager. The Fiduciary Manager monitors the Scheme's investment portfolio on a daily basis and in accordance with the objectives set by the Trustee. The Fiduciary Manager will use contributions into and disinvestments out of the Scheme's investment portfolio to manage and if necessary, rebalance the investment portfolio in-line with the objectives set by the Trustee.

10. Financially Material Considerations

Over the period to achieving the overall investment objective of reaching full funding on a Technical Provisions basis, the Trustee has tasked the Fiduciary Manager with monitoring financially material risks (including ESG considerations) within the Scheme's investment portfolio. At a high level, the Scheme is expected to increase its allocation to lower risk fixed-income assets as the Scheme matures. In addition to this, the Fiduciary Manager will use active ownership (see Section 11) to manage the Scheme's investment portfolio through time. The Fiduciary Manager also monitors, and where necessary reduces, the financially material risks which the Scheme is exposed to as it travels through its journey to ultimately achieve its objectives.

11. Responsible Investment

The Trustee believes that investing sustainably is consistent with the Scheme's mission of taking full account of longer-term return drivers and risk. In particular, the Trustee believe climate change to be a systematic, long-term material financial risk to the value of Scheme assets, as well as impacting on the Scheme's liability profile and covenant with the Employer.

By exercising good investor stewardship and by taking financially material environmental, social and governance ("ESG") factors, including climate change, into account in the investment process, the Trustee believes the Scheme is better positioned to deliver the required long-term investment objective of achieving full funding on a Technical Provisions basis.

The Trustee has delegated the day-to day investment decisions in relation to responsible investment to the Fiduciary Manager, having reviewed the Fiduciary Manager's approach to ESG considerations as part of their appointment. More specific details on the Fiduciary Manager's approach to responsible investment are available [here](#).

The Trustee is satisfied that ESG considerations are integrated into the selection, retention and realisation of investments and are included in any manager selection and retention exercises that the Fiduciary Manager may undertake as part of both the investment and operational due diligence processes.

11.a Stewardship – Voting and Engagement

The Trustee is aware of their role as a responsible steward of capital and the need to assess all financially material risks which include the risks with climate change as well as other ESG-related factors. The Trustee believes that having a high standard of governance, promotion of corporate responsibility and appreciation of environmental factors will be additive and will help protect long term financial value.

The Trustee believes that active ownership (voting and engagement) is the most appropriate channel to promote positive ESG practices. All the Scheme's assets are either managed directly or overseen by the Fiduciary Manager. As such, the Trustee delegates active ownership to the Fiduciary Manager.

The Fiduciary Manager uses voting rights & engagement as an essential part of the value creation process. This process includes:

- Operating Proxy Voting Committee (PVC) which oversees the proxy voting policies, procedures, guidelines and voting decisions.
- Prioritising certain engagement themes that drive the engagement with underlying investment managers and holdings. The engagement themes in focus are outlined and updated on the Fiduciary Manager's engagement policy, saved [here](#).

The Trustee expects the Fiduciary Manager to: (i) be a signatory to the UN PRI Code; (ii) be a signatory to the UK Stewardship code; and (iii) provide adequate transparency around stewardship including an annual report on stewardship activities undertaken.

The Trustee will engage with the Fiduciary Manager as necessary for more information to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members.

11.b Monitoring and Reporting

The Fiduciary Manager reports quarterly on the overall responsible investment position, including key ESG metrics, and regularly monitors the underlying Investment Managers in relation to their responsible investing and ESG integration processes. The Investment Managers report quarterly to the Fiduciary Manager on their proxy voting and engagement activities where relevant.

The Trustee aims to monitor the impact and progress of its responsible investing activities.

11.c Non-financial Factors

The Trustee does not take into account non-financial matters in the selection, retention and realisation of investments. The Trustee assesses matters it considers to be financially material, this includes risks related to climate change and other ESG-related factors.

12. Arrangement with the Fiduciary Manager

The Trustee recognises the importance of ensuring that the Fiduciary Manager's investment strategy aligns with the Trustee's investment policies. The Trustee's arrangements with the Fiduciary Manager, as detailed in this section 12, seek to incentivise the Fiduciary Manager to align its investment strategy and decisions with the Trustee's investment policies and to make decisions and operate in a manner that best generates medium to long-term financial and non-financial results for the Scheme and its beneficiaries.

12.a Implementation

The services provided by the Fiduciary Manager to implement the Scheme's investment strategy include risk management, portfolio construction and manager selection (which incorporates continuous monitoring of managers and, where required, revisions to the manager line-up). The

Fiduciary Manager monitors its sub-advisors and the companies held in its portfolios in accordance with its Stewardship Policy.

The Trustee expects the Fiduciary Manager, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. This includes monitoring and engaging with underlying investment managers to ensure they are aligned with the investment objectives of the Scheme. On an annual basis the Fiduciary Manager reports back to the Trustee on its engagement and stewardship practices via the annual implementation statement.

12.b Evaluation of Performance, Remuneration and Incentivisation

The Trustee carries out periodic reviews to assess the Fiduciary Manager's performance (net of all costs) relative to the objectives set by the Trustee and against the Scheme's specific liability benchmark. The Trustee will consider both short (quarterly) and longer-term (3 and 5 year) horizons when assessing the performance of the Fiduciary Manager.

The remuneration paid to the Fiduciary Manager and the fees incurred by third parties appointed by the Fiduciary Manager are provided annually by the Fiduciary Manager to the Trustee. This cost information is set out alongside the performance of the Fiduciary Manager to provide context. The Trustee monitors these costs and performance trends over time. As part of the annual audit the Scheme's auditor also reviews the fees which have been incurred during each year to ensure the remuneration is in-line with what is specified in the IMA.

The Trustee believes that setting the Fiduciary Manager clear objectives and regularly monitoring the Fiduciary Manager's performance versus those expectations incentivises the Fiduciary Manager to make decisions that are aligned with the Trustee's investment policies.

12.c Portfolio turnover costs

The Fiduciary Manager provides the Trustee with an annual breakdown of the portfolio turnover costs which have been incurred in-line with the Cost Transparency Initiative (CTI). The Trustee does not have a specified target portfolio turnover figure but do monitor and review the Fiduciary Manager's performance net of all transaction costs. The Trustee understands that the Fiduciary Manager will need to carry out trading within the portfolio in order to meet the return objectives and properly manage risks.

The Fiduciary Manager monitors the level of portfolio turnover (defined broadly as the amount of purchases and sales) of all the investment managers appointed on behalf of the Trustee. Ultimately, the Fiduciary Manager is incentivised to manage transaction costs effectively given the adverse impact on performance such costs otherwise have.

12.d Monitoring Investment Performance

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

The Trustee receives annual stewardship reports on the monitoring and engagement activities carried out by the Fiduciary Manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year. The latest investment stewardship report can be found [here](#).

The Trustee also receives annual cost transparency reporting from the Fiduciary Manager in line with the prevailing regulatory requirements for fiduciary managers. These include but are not limited to the total costs incurred by the Scheme, the fees paid to the Fiduciary Manager and underlying managers, the amount of portfolio turnover costs (in relation to section 12.c above), charges incurred through the

use of pooled funds (e.g. custody, admin, audit fees etc.) and the impact of these costs on the investment return achieved by the Scheme.

12.e Duration of Agreement

The Trustee's arrangement with the Fiduciary Manager is not for a fixed term but an ongoing arrangement. The Trustee has a right to terminate this arrangement on notice under the terms specified in the IMA. The periodic reviews (referred to above) are an opportunity for ongoing assessment of the arrangement with the Fiduciary Manager with particular consideration for how the Fiduciary Manager is aligning to the Trustee's investment policies.

13. Timing of Periodic Review

The Trustee will review the Statement and the Scheme's investment strategy each year and additionally whenever they believe there to be a significant change in the Scheme's circumstances.

The Addendum contains further detail of the Scheme's investment strategy and may be updated from time to time without updating this Statement.

14. Additional Voluntary Contributions AVC's

AVC's are invested through Clerical Medical Limited.