

**CAPE PENSION TRUSTEES LIMITED**  
**ACTING AS TRUSTEE FOR THE**  
**CAPE PLC STAFF PENSION & LIFE ASSURANCE SCHEME**  
**STATEMENT OF INVESTMENT PRINCIPLES – March 2021**

**INTRODUCTION**

Pensions  
Act  
reference

<b>Purpose of Statement</b>	This Statement sets out the principles governing decisions about the investment of the assets of the Cape plc Staff Pension & Life Assurance Scheme (the "Scheme"). This Statement is issued by the Trustee to comply with Section 35 of the Pensions Act 1995.	35(1)
<b>Advice</b>	The Trustee has obtained and considered written advice on the content of this Statement from Isio Group ("Isio"). Isio has confirmed to the Trustee that they have the appropriate knowledge and experience to give the advice required by the Pensions Act.	35(5)(a)
<b>Consultation</b>	The Trustee has consulted the Employer, Cape Intermediate Holdings plc, on the content of this Statement.	35(5)(b)
<b>Investment powers</b>	The investment powers of the Trustee are set out in the Trust Deed and Rules. This Statement is consistent with those powers. Neither this Statement, nor the Trust Deed and Rules restrict the Trustee's investment powers by requiring the consent of the Employer.	34(1) & 35(4)
<b>Investment decision-making</b>	All investment decisions are taken by the Trustee board as a whole. The Trustee believes that collective responsibility is appropriate, given the size of the board, except for specific projects when a sub-committee may be set up. The Trustee is professionally advised by Isio regarding investment decision making. The Trustee will examine regularly whether additional investment training is desirable for any individual trustee in the form of but not limited to; presentations from investment professionals, 'on the job' training and third party investment training.	

## CHOOSING INVESTMENTS

### Process for choosing investments

The Trustee relies on professional investment managers for the day-to-day management of all the Scheme’s assets.

### Investments controlled by the Trustee

The Trustee’s policy is to review the investments over which they retain control and to obtain written advice about them periodically. When deciding whether or not to make any new investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the investment managers. 36(3)  
36(4)  
36(7)

The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this Statement. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act. 36(2)  
36(5)  
36(6)

### Investment policy

Having considered advice from Isio, the Trustee has set the investment policy with regard to the Scheme’s liabilities (excluding the pensioner liabilities and an element of the deferred liabilities that are covered by insurance policies with Legal & General Assurance Society), its funding level and their views on the ability of the Employer to support investment risk within the Scheme. The Trustee may suspend the benchmarks from time to time.

### Asset Allocation Strategy

The following sets out the asset allocation details which have been established in order to maximise the likelihood in achieving the objectives set out in the SIP.

Asset Class	Target allocation (%)	Range (%)
Absolute Return Bonds	18	+/- 5
LDI	40	+/- 5
Semi Liquid Credit	35	+/- 5
Property	7	+/- 5

**Benchmarks/  
performance  
objectives/ fees**

A summary of the Scheme's investment managers, benchmarks, performance objectives, fees and investment style are set out in the appendix.

Where applicable, the managers are responsible for the selection of individual stocks within each category of investment.

The Trustee has signed agreements with the managers and the managers are regulated by the Financial Conduct Authority ("FCA"). The assets of the Scheme, together with the assets of other pension schemes, are invested collectively.

**Delegation to  
investment  
managers**

The managers will exercise investment powers with a view to giving effect to the principles contained in this Statement, so far as reasonably practicable.

36(2)

In particular, the investment managers must have regard to the suitability and diversification of the investments made on behalf of the Scheme.

36(5)

Standard Life, Utmost Life and Prudential are the appointed managers for members' Additional Voluntary Contributions ("AVCs").

**Sub delegation**

The investment managers' duties may only be delegated to a third party investment manager with the prior permission of the Trustee. Discretion may only be delegated to an investment manager to whom Section 34(3) of the Pensions Act 1995 applies. The third party investment manager should exercise discretion with a view to giving effect to the principles contained in this Statement so far as reasonably practicable.

**Environmental,  
Social,  
Corporate  
Governance  
factors and the  
exercise of  
rights**

The Trustee receive information from their investment advisers on the investment managers' approaches to engagement. Circumstances for additional monitoring and engagement include:

- The manager has not acted in accordance with their policies and frameworks.
- The manager's policies are not in line with the Trustee' policies in this area.

The performance objectives have been set as described in the Appendix.

**Performance objectives**

35(3)(d)

**Expected return**

The Scheme’s investment strategy was derived following careful consideration of the factors set out in Appendix A. The considerations include the nature and duration of the Scheme’s liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Scheme, and also the strength of the sponsoring company’s covenant.

The Trustee recognise that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in a suitably diversified portfolio of assets which are contractual in nature and expected to reduce the overall risk of the portfolio as well as minimising (as far as possible) the volatility of the funding level over the long term.

**New investments**

Within the categories of investment permitted by the Trustee the investment managers can purchase any new investments, as long as they do not breach the provisions of the investment management agreements and / or pooled fund guidelines.

35(3)(a)  
36(2)(b)

**Realisation of investments**

With the exception of the Scheme’s assets invested in property, the assets are invested in funds that deal on a regular basis. When investments/disinvestments are required, monies will be used to rebalance the portfolio.

35(3)(e)  
36(2)(b)

**DIVERSIFICATION AND RISK CONTROLS**

The following measures have been implemented to reduce the risks associated with making investments.

35(3)(c)

**Number of managers**

The Trustee has delegated the management of the assets to specialist investment managers after a careful selection process.

<b>Risk versus the liabilities</b>	The Trustee's policy is to invest the assets (excluding the Legal and General insurance policies) with reference to the liability profile of the non-insured liabilities.	35(3) (a)(b)(c)
<b>Range of assets</b>	In addition to the long-term target allocation set out, there is also a tolerance range to allow flexibility with movement in asset values from time to time and to take medium-term investment decisions as opportunities and/or threats arise. The Trustee may suspend the benchmark from time to time.	35(3)
<b>Investment manager restrictions</b>	The governing documents for the funds impose broad restrictions on the type and range of assets held and the level of exposure to each. Internal restrictions are imposed on the managers of the pooled funds. These controls are framed so as to reflect the house investment style and approach, and may be varied from time-to-time.	35(3)(c)
<b>Employer related investment</b>	The Trustee does not directly hold any employer related investments, as defined by section 40 of the Pensions Act except where the Scheme invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Scheme's value.	40
<b>Manager controls</b>	The Trustee take fund managers' policies in the above respects into account when selecting and monitoring managers. The fund managers are expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.	34(4)(a)(b)
<b>Custody</b>	JP Morgan is the custodian for assets held with Schrodgers. Other custodianship arrangements are those operated by the investment managers for all clients investing with them.	

## **COMPLIANCE**

<b>Frequency of review</b>	The Trustee will review this Statement every three years or sooner if there is a change in the policy on any of the areas covered by the Statement. The Trustee will consult with the Employer and take written advice when revising this Statement.	35(1) & 35(5)
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**Professional advice**

The Trustee employs Isio to help review the investment strategy.

**Review of investment manager**

At least annually, the Trustee will consider whether or not the investment managers: 34(4)

- have the appropriate knowledge and experience
- are managing the assets competently
- have had regard to the need for diversification of investments
- have had regard to the suitability of each investment/each category of investment
- have been exercising the powers of investment with a view to giving effect to the principles contained in this Statement, so far as is reasonably practicable.

If an investment manager is not able to satisfy the Trustee about these issues, the Trustee will replace the manager.

The investment managers will inform the Trustee immediately of:

- any serious breach of internal operating procedures
- any material change in the knowledge and experience of those involved in managing the Scheme's investments.

**Information from investment manager**

The investment managers will supply the Trustee with sufficient information each quarter to facilitate the review of activity, including: 34(4)

- a report of the strategy followed during the quarter
- the rationale behind past and future strategy
- a report on the movement and valuation of unit holdings

In order to allow the Trustee to carry out their annual review of the investment managers, the investment managers will supply the Trustee with

- evidence of the investment managers' knowledge and experience for managing the investments of the Scheme
- details of the approach to making decisions about the suitability and diversification of the investments
- details of operating procedures used by the investment manager and controls over the individuals making investments for the Scheme

**Performance measurement information**

Each quarter the Trustee monitors the performance of the investment managers against the objectives set. Performance reports are received from the investment managers.


**Performance,  
Strategy and  
Risk**

The Trustee receive a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting. Circumstances for additional monitoring and engagement include:

- There are significant changes made to the investment strategy.
- The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations.
- Underperformance vs the performance objective over the period that this objective applies.

**Fee  
arrangements**

The managers are remunerated by fees as indicated. Full details are included in the Investment Management Agreements held with the managers. The investment adviser is remunerated by fees as pre-agreed for work pieces or according to time spend. Full details are included in the Client Agreement.

Signed:  ..... Trustee

For: Cape Pension Trustees Limited

Date: 29/04/2021

Distribution: Trustees, Cape Intermediate Holdings plc, Investment Managers, Consultants, Scheme Actuary

Signed: ..... Trustee

For: Cape Pension Trustees Limited

Date: \_\_\_\_\_

Distribution: Trustees, Cape Intermediate Holdings plc, Investment Managers, Consultants, Scheme Actuary

## Investment Management Arrangements

The following describes the details of the mandates of each asset class.

### Absolute Return Bonds

Manager	Mandate	Benchmark	Expected return over gilts %*	Objective (gross/net of fees)	Fees and expenses (% pa)
<b>M&amp;G</b>	Total Return Credit Investment	1 month £LIBOR	2.6	+3 to 5% (net)	Fees: 0.45

### LDI

Manager	Mandate	Benchmark	Expected return over gilts %*	Objective (gross/net of fees)	Fees and expenses (% pa)
<b>Schroders</b>	LDI	Track Scheme Benchmark	0	n/a	Fees: 0.1 of liabilities hedged (minimum fee: £30k); expenses: 0.016 of liabilities hedged

### Semi Liquid Credit

Manager	Mandate	Benchmark	Expected return over gilts %*	Objective (gross/net of fees)	Fees and expenses (% pa)
<b>CQS</b>	Credit Multi Asset	3 month £LIBOR	3.7	+4.0% (net)	Fees: 0.65; expenses 0.11
<b>Barings</b>	Global High Yield Credit Strategies	3 month £LIBOR	3.7	+4.0% (net)	Fees: 0.6; expenses: 0.2

### Property

Manager	Mandate	Benchmark	Expected return over gilts %*	Objective (gross/net of fees)	Fees and expenses (% pa)
<b>Invesco Real Estate</b>	UK residential Fund	N/A	3.0	Achieve a net internal rate of return of 8%	Fees: 0.9

\* Expressed relative to the yield on fixed interest gilts (the annual yield at the 10-year tenor on the Bank of England spot curve). This yield was 0.2% at 31 December 2020. Best estimate assumptions as at 31 December 2020.



## Appendix A – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee have considered and sought to manage is shown below.

The Trustee adopt an integrated risk management approach. The three key risks associated with this framework and their management are stated below:

Risks	Definition	Policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"> <li>Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.</li> <li>Investing in a diversified portfolio of assets.</li> </ul>
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> <li>Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.</li> <li>The Trustee have in place guaranteed arrangements with the parent company to ensure funding risk is managed.</li> </ul>
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	<ul style="list-style-type: none"> <li>When developing the Scheme's investment and funding objectives, the Trustee will take the covenant into account and ensure that the level of risk the Scheme holds is appropriate for the covenant to support.</li> </ul>

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 80% of these risks relative to the Scheme's liabilities on a buyout basis.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.
Market	Losses due to factors that affect the performance of financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.

Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustee monitor the managers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

## Appendix B – Investment Management Arrangements

The Trustee have the following policies in relation to the investment management arrangements for the Scheme:

<p><b>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee policies.</b></p>	<ul style="list-style-type: none"> <li>As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee’s policies. However, the Trustee invest in a portfolio of pooled funds that are aligned to the strategic objective.</li> </ul>
<p><b>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</b></p>	<ul style="list-style-type: none"> <li>The Trustee review the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements.</li> <li>The Trustee monitor the investment managers’ engagement and voting activity on an annual basis as part of their ESG process.</li> <li>The Trustee do not incentivise the investment managers to make decisions based on non-financial performance.</li> </ul>
<p><b>How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Trustee policies.</b></p>	<ul style="list-style-type: none"> <li>The Trustee review the performance of all of the Scheme’s investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.</li> <li>The Trustee evaluate performance over the investment manager’s performance period, which is typically 3 to 5 years.</li> </ul>
<p><b>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor portfolio turnover or turnover range.</b></p>	<ul style="list-style-type: none"> <li>The Trustee do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.</li> </ul>
<p><b>The duration of the Scheme’s arrangements with the investment managers</b></p>	<ul style="list-style-type: none"> <li>The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.             <ul style="list-style-type: none"> <li>For open ended funds, the duration is flexible and the Trustee will from time-to-time consider how appropriate these investments are and if they should continue to be held.</li> </ul> </li> </ul>






# 20210401 Cape - SIP\_Revised (Clean)\_APPROVED

Final Audit Report

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