

# Statement of Investment Principles

## The Cabot Carbon Limited CaboSil Division Pension Plan

September 2020

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# 1. Introduction

## 1.1 What is a Statement of Investment Principles (“SIP”)?

It is a document produced by the Trustees of a trust-based pension scheme, setting out the investment principles governing decisions about investments for the purpose of the pension scheme. This SIP has been produced by the Trustees (the “Trustees”) of The Cabot Carbon Limited CaboSil Division Pension Plan (“the Plan”).

## 1.2 What does it cover?

Section 2 of the Occupational Pension Schemes (Investment) Regulations 2005 (“the Regulations”) sets out those matters that must be covered in a SIP, and which include the Trustees’ policy in relation to:

- the kinds of investments to be held;
- the balance between different kinds of investments;
- risks, including the ways in which risks are to be measured and managed;
- the expected return on investments;
- the realisation of investments; and
- the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

## 1.3 What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 (the “Act”) and all subsequent legislation, Regulations and guidance from the Pensions Regulator applying to UK pension schemes.

## 1.4 Who has had input to this SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Advisory (“Quantum”), the Plan’s investment adviser, and consulting Cabot Carbon Limited (the “Sponsoring Employer”) as required by the Act and subsequently the Regulations. Quantum has the knowledge and experience required under Section 2 of the Regulations to provide professional advice on the management of the investments of such schemes.

## 1.5 Who does it concern?

The document is produced as evidence of compliance with the Act and other relevant legislation, and to provide the opportunity for members, professional advisers, the investment managers and the Sponsoring Employer to understand and comment on the Trustees’ policy on investment.

## 1.6 Plan details

The Plan is a registered pension scheme with HM Revenue & Customs under the Finance Act 2004. The Plan’s assets are held under a trust which is administered by the Trustees. The investment powers of the Trustees are set out in the Plan’s trust deed.

The Plan is classed as a defined contribution pension scheme and is open to future contributions from existing and new members.

On 1 July 2019 the Lloyds Banking Group became the owner of Zurich’s corporate pensions business. As a result, the Plan is now administered externally by Scottish Widows, which is part of the Lloyds Banking Group. Investment advice is provided by Quantum, who have advised the Trustees in preparing this SIP.

## 1.7 Duties and responsibilities

The Trustees have established the duties and responsibilities of various parties and this is outlined in the table below:

<b>Trustees</b>	<b>Investment manager</b>
Set structures and processes for carrying out their role.	Operates within the terms of the written contracts and agreements.
Select & monitor Plan investments.	Selects individual investments with regard to their suitability and diversification.
Select & monitor investment advisers and fund managers.	<b>Investment adviser</b>
Agree structure for implementing investment strategy.	Advises on all aspects of the investment of the Plan's assets, including implementation, when requested by Trustees.
Make ongoing decisions relevant to the operational principles of the Statement of Investment Principles.	Advises on this Statement.
Report annually on compliance with this Statement	Provides required training.

## 2. Investment policy

It is the policy of the Trustees, after taking appropriate written advice from their investment advisers and in consultation with the Sponsoring Employer, to set the investment strategy for the Plan, following a consideration of their objectives and other related matters.

The Trustees' policy is to review their objectives and investments, and to obtain written advice about them at regular intervals.

All of the Plan's investments are in external collective investments.

It is the Trustees' policy that the Plan's assets should only hold investments in derivative instruments in so far as they contribute to a reduction in risk or facilitates efficient portfolio management.

It is the Trustees' policy not to hold any direct investment in the Sponsoring Employer.

When deciding whether or not to make any new investments, the Trustees will obtain written advice from the Plan's investment adviser and consider whether future decisions about those investments should be delegated to investment managers.

The written advice will consider the issues set out in the Regulations and the principles contained in this statement. The Regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the investment managers) against the following criteria:

- the best interests of the members and beneficiaries;
- security;
- quality;
- liquidity;
- profitability;
- tradability on regulated markets;
- diversification; and
- the use of derivatives.

### 3. Investment objectives

The Trustees' key objective is to provide a range of investment strategies that are suitable for meeting members' long and short-term investment needs. They have taken into account members' attitudes to risk and how they might vary with the length of time to retirement.

More specifically, the Trustees make available investment choices that reflect the members':

- range of ages, taking into account:
  - members closer to retirement have less scope to absorb risk and protect against short term fluctuation in asset values; and
  - members further from retirement have greater scope to absorb risk and short-term volatility in asset values, but also have to seek to protect against the erosion of the capital value of their assets due to inflation;
- attitude to investment risk;
- level of dependency on the benefits to be drawn;
- understanding of investment matters; and
- level of interest and time available to devote to making investment decisions.

The Trustees review their investment objectives from time to time and amend them accordingly.

## 4. Investment strategy

### 4.1 How is the Plan's investment objective implemented?

The Plan's objective is implemented through making available to members:

- a default investment strategy, into which members are automatically placed if they do not make a specific election. This is a lifestyle strategy, which seeks to reduce the risk of short-term volatility to the member's assets as the member nears retirement and target a retirement lump sum and/or the purchase of an annuity at retirement;
- lower risk and higher risk lifestyle strategies;
- a range of funds from which members may self-select. This range is intentionally diverse but not considered by the Trustees to be unduly so. The range of funds is provided by Baillie Gifford & Co. ("Baillie Gifford"), BlackRock Investment Management ("BlackRock"), Legal & General Investment Management ("LGIM") and Schroder Investment Management ("Schroders") and are detailed in the Appendix.

### 4.2 How are the lifestyle strategies defined?

#### Default strategy

Term to target retirement age	Fund	Purpose
Over 5 years	70% Aquila Life 30/70 Currency Hedged Global Equity Index Fund, 30% Baillie Gifford Diversified Growth Fund ("DGF")	To achieve long-term capital growth.
From 5 years to target retirement age	14% pa switch from Aquila Life 30/70 Currency Hedged Global Equity Index Fund and 6% pa switch from Baillie Gifford DGF to 5% pa BlackRock Sterling Liquidity Fund and 15% pa LGIM Pre-Retirement Fund	To preserve capital growth achieved and gradually reduce annuity conversion risk within the account.
At target retirement age	25% BlackRock Sterling Liquidity Fund, 75% LGIM Pre-Retirement Fund	

### Lower risk lifestyle

Term to target retirement age	Fund	Purpose
Over 5 years	45% Baillie Gifford DGF, 55% Aquila Life Corporate Bond Over 15 Year Index Fund	To achieve long-term capital growth.
From 5 years to target retirement age	9% pa switch from Baillie Gifford DGF and 11% pa switch from Aquila Life Corporate Bond Over 15 Year Index Fund to 5% pa BlackRock Sterling Liquidity Fund and 15% pa LGIM Pre-Retirement Fund	To preserve capital growth achieved and gradually reduce annuity conversion risk within the account.
At target retirement age	25% BlackRock Sterling Liquidity Fund, 75% LGIM Pre-Retirement Fund	

### Higher risk lifestyle

Term to target retirement age	Fund	Purpose
Over 5 years	55% Aquila Life 30/70 Currency Hedged Global Equity Index Fund, 45% Schroders QEP Global Active Value Fund	To achieve long-term capital growth.
5 years to target retirement age	11% pa switch from Aquila Life 30/70 Currency Hedged Global Equity Index Fund (“Aquila Life”) and 9% switch from Schroders QEP Global Active Value Fund to 5% pa BlackRock Sterling Liquidity Fund and 15% pa LGIM Pre-Retirement Fund	To preserve capital growth achieved and gradually reduce annuity conversion risk within the account.
At target retirement age	25% BlackRock Sterling Liquidity Fund, 75% LGIM Pre-Retirement Fund	

### 4.3 What did the Trustees take into account when deciding on which strategies to make available to members?

In the course of constructing the strategies to be made available to members, the Trustees considered the investment risks set out in section 6 of this document.

The Trustees have also considered the relevant regulatory requirements and guidance.

### 4.4 Financially material considerations, non-financial matters and stewardship policies

This section sets out the Trustees' policies on financially material considerations, non-financial matters and stewardship.

If the Trustees feel that the fund managers are not assessing financial and non-financial performance adequately, or engaging with the companies they are investing in, they will use these factors in deciding whether to retain or terminate a manager.

The Trustees do not offer explicit remuneration to the Plan's investment managers for considering these factors specifically.

#### 4.4.1 Financially material considerations

The Trustees acknowledge the potential impact upon the Plan's investments and members arising from financially material matters. The Trustees define these as including, but not limited to ESG matters (including, but not limited to, climate change).

For the Plan's investments that are implemented on an active basis, the Trustees have determined that ESG is built into the core of its investment managers' investment processes.

With specific regard to ESG factors, the Trustees consider how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. The Trustees also periodically consider publicly available ESG related publications pertaining to the incumbent investment managers.

The Trustees are aware that some of the Plan's investments are implemented on a passive basis. This restricts the ability of the manager to take active decisions on whether to hold securities based on the investment manager's consideration of ESG factors. The Trustees do however expect the incumbent managers, where relevant, to utilise their position to engage with companies on these matters.

The Trustees also consider ESG factors when determining future investment strategy decisions. To date, the Trustees have not established any restrictions on the appointed investment managers, but may consider this in future.

#### 4.4.2 Stewardship policy

The Trustees review their investment managers' policies on the exercise of voting rights and monitors their engagement practice and proxy voting activity via their annual reports.

The Trustees acknowledge the constraints that they face in terms of influencing change due to the size and nature of the Plan's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustees, with the help of their investment advisers, consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of their investments.

#### **4.4.3 Non-financial matters**

The Trustees consider non-financial factors (where members have been forthcoming with their views) however the Trustees do not employ a formal policy in relation to this when selecting, retaining and realising investments.

## 5. Selection and monitoring of investment managers

### 5.1 How do the Trustees select investment managers?

The Trustees have invested the Plan's assets in collective funds with their managers. Prior to the appointment of an investment manager, the Trustees usually undertake a manager selection exercise which is co-ordinated by the Trustees' investment advisers, Quantum Advisory. Where it is more appropriate, the Trustees request a direct recommendation.

### 5.2 What initial criteria must be met prior to the selection of an investment manager?

- The investment manager is suitably qualified to carry out the Plan's investment management on behalf of the Trustees, and is authorised under the Financial Services and Markets Act 2000.
- The investment manager must be in a position to accept the level of assets which the Plan may wish to invest with them.
- The collective fund must be FCA authorised.
- The investment manager's fund must be of an institutional nature.
- The investment manager must have in place appropriate asset allocation guidelines such that the likelihood of concentration risk is mitigated.
- The investment manager's fund must be sterling denominated or have its foreign currency exposure hedged back to sterling.
- The following procedures are also undertaken as part of the selection process:
  - An assessment of the investment performance of the manager measured against its peers, accounting for the volatility sustained relative to the performance achieved (for active managers) and tracking error (for passive managers).
  - An examination of all charges levied by the investment manager relating to the management of the fund and comparison of these charges against those levied by comparative managers.
  - The manager has sufficient processes in place to manage ESG and Stewardship in a manner that it consistent with the Trustees' policies. This gives consideration to the managers' voting and engagement. The Trustees believe these factors can improve the medium to long-term performance of the investee companies.

### 5.3 How do the Trustees monitor the ongoing suitability of each manager?

The Trustees, through Quantum Advisory, measure the investment performance of the investment managers. On an annual basis, the Trustees monitor the performance of each investment manager's fund against their target or benchmark through the provision of annual investment monitoring reports.

Annually the Trustees review with Quantum Advisory, each manager's annual and rolling three-year investment performance.

A formal review of the investment managers is undertaken by the Trustees in conjunction with Quantum Advisory , when the Trustees deem it is appropriate to do so.

The appointment of any investment manager can be reviewed at any time if the investment manager is considered by the Trustees to be no longer suitable for the mandate for which it was appointed.

## 5.4 What formal agreements are in place?

The Trustees have signed policy documents with Scottish Widows (previously Zurich, who were bought by the Lloyds Banking Group in July 2019). The Trustees select investment managers and funds which are appropriate to implement the investment strategy. These are accessed through Scottish Widows.

Scottish Widows have separate agreements with the underlying investment managers, which set out details on the following matters::

- the investment manager's fund objective;
- the benchmark;
- the performance target;
- risk parameters & controls; and
- the manager's approach in achieving the objective.

The Trustees keep the appointment of all investment managers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Plan's investment strategy.

The investment managers are remunerated through ad valorem fees. See section 7.2 for further details.

## 5.5 Custodians

The Plan's assets are held by third party custodians who, although appointed by the investment managers, are separate business entities.

The custodians provide safekeeping for all the Plan's assets and perform the relevant administrative duties, such as the collection of interest and dividends and dealing with corporate actions.

## 6. Investment risks

The investment risks associated with the Plan's investment strategies are borne wholly by the individual members and not by the Sponsoring Employer or the Trustees.

In setting the Plan's investment strategy, the Trustees consider that the main risks facing members through their membership of the Plan are:

### 6.1 Inflation risk

This is the risk that the investment return over members' working lives does not keep pace with inflation.

### 6.2 Annuity conversion risk

This is the risk that relative market movements in the years just prior to retirement may lead to a substantial reduction in the pension and cash lump sum secured, where that pension is provided by means of an annuity.

### 6.3 Capital risk

This is the risk that the funds in which members invest fall in value in absolute terms. This includes the capital risk that assets may be exposed to in the funds if investment managers do not properly consider ESG factors when choosing investments.

### 6.4 Liquidity risk

This is the risk of a suspension of the realisation of units when a member reaches retirement, or wishes to transfer their funds.

This risk is managed through, as far as is practicable and necessary, the Trustees investing in liquid assets which can be quickly realised as required; and, from time-to-time, reviewing the investment manager's policy on liquidity.

### 6.5 Negligence risk

This is the risk that the Trustees fail in their duties to:

- provide appropriate investment choices;
- select appropriate investment managers to underpin the investment strategies; and
- effectively monitor those managers to ensure they remain appropriate.

Negligence risk is managed through: taking regular investment advice encompassing both the appointment and monitoring phases and the Trustees taking steps to ensure that they are conversant with investment policies.

### 6.6 Mis-statement risk

This is the risk that the choice of wording used to describe investment choices to members is misleading.

This risk is managed by taking appropriate advice and ensuring that member communications are reviewed by an investment professional in order to confirm that all documents relating to investment choices, and charges, are clear, fair and not misleading.

## 6.7. ESG risk

The risk that ESG factors, including climate change, adversely impact the value of the Plan's assets, if this is not given due consideration and/or is misunderstood. This risk is managed by carefully monitoring the ESG and Stewardship processes of the incumbent investment managers to ensure they align with the Trustees' policies.

## 7. Other matters

### 7.1. What is the Trustees' policy on the realisation of investments?

The Plan's assets are held in pooled funds, most of which can be realised easily if the Trustees so require.

The Trustees have delegated the investment and disinvestment of members' assets to Scottish Widows. Scottish Widows' protocol and principles are detailed in a document separate to this SIP.

### 7.2. How are various parties who are involved in the investment of the Plan's assets remunerated?

Quantum Advisory is remunerated on a fixed fee or time-cost fee basis, with budgets agreed in advance for ad hoc project work whenever possible.

The Plan invests in pooled funds. The Trustees note that the investment strategy and decisions of the fund managers cannot be tailored to the Trustees' policies and the managers are not remunerated directly on this basis. However, the Trustees, with the help of Quantum, set the investment strategy for the Plan and select appropriate managers and funds to implement the strategy.

The Trustees do not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustees do, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustees consider the fees and charges associated with each investment before investing.

The investment managers are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total value of the Plan's funds they hold under management.

In addition, the fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The Trustees obtain an annual statement from the investment managers setting out all the costs of the investments of the Plan.

### 7.3. Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly. The latter are known as direct investments.

The Trustees' policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustees will obtain written advice from the Plan's investment adviser. If the Trustees believe that an investment is no longer suitable for the Plan, they will

withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

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

#### 7.4. Conflicts of interest

The Trustees consider any potential and actual conflicts of interest (subject to reasonable levels of immateriality) at the start of each Trustees' meeting and document these in the minutes. Investment managers report on potential and actual conflicts of interest annually.

#### 7.5. Capital structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

## 8. Review

### 8.1. How often are investments reviewed?

The Trustee reviews the default arrangement at least every three years and without delay following any significant change in investment policy, or the demographic profile of relevant members. The Trustees consider the extent to which the return on the investments relating to the default arrangement (after deduction of investment charges) is consistent with the Trustee's aims and objectives for the default arrangement.

Investment return experience and the performance of individual funds is reviewed with assistance from Quantum on request from the Trustees. Managers are reviewed against their agreed performance benchmarks and targets over both short-term and long-term time periods, to ensure they remain appropriate to implement the investment strategy for the Scheme.

The Trustees also assess 'Value for Members' periodically.

### 8.2. How do the Trustees monitor portfolio turnover and costs?

The Trustees have delegated the selection of holdings to the appointed investment managers. The Trustees receive an annual report from the investment managers setting out portfolio turnover and the associated costs.

The Trustees have not set a specific portfolio turnover target for each investment manager and recognise that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

The Trustees report on transaction charges in the Chair's Statement annually.

The Trustees will compare the annual turnover and associated costs for each fund with previous years to ensure each investment manager's process and philosophy remain consistent.

### 8.3. How often is this SIP reviewed?

The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Any change to this SIP will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in, and practical experience of, financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments; and consulting the Sponsoring Employer.

For and on behalf of the Trustees of The Cabot Carbon Limited CaboSil Division Pension Plan.

## Appendix – Fund range

Investment Manager	Fund name	Asset class	Investment style	Date of appointment	Fund description
Baillie Gifford	Diversified Growth	Diversified	Active	July 2012	The aim of the Fund is to outperform the UK base rate by at least 3.5% p.a. (after fees) over rolling 5 year periods with an annual volatility under normal circumstances of less than 10%. The Fund may invest across a broad range of traditional and alternative asset classes which may include but are not limited to equities, investment grade and high yield bonds, property, private equity, infrastructure, insurance-linked securities, commodities and currencies. The Fund may invest directly or hold up to 100% in other collective investment vehicles and may use exchange traded and over the counter financial derivatives, such as currency forwards or futures, for both investment as well as hedging purposes.
BlackRock	Aquila Life 30/70 Currency Hedged Global Equity Index	Equity	Passive	July 2012	The Fund aims to achieve index returns in line with UK equities (30%) and overseas equities (70%). The overseas component invests 60% in developed overseas equities with the currency exposure hedged back to sterling and the remaining 10% invested in emerging market equities.
BlackRock	Aquila Life Corporate Bond Over 15 Year Index	Bonds	Passive	July 2012	The Fund invests in investment grade corporate bonds denominated in sterling. The Fund aims to achieve a return consistent with the iBoxx Sterling Non-Gilts Over 15 Years Index. This index consists of bonds with maturity periods of 15 years or longer.
BlackRock	Sterling Liquidity	Cash	Passive	July 2012	The Fund aims to achieve an investment return that is in line with wholesale money market short-term interest rates. Specifically, the Fund is benchmarked against 7 Day Sterling LIBID.
LGIM	Ethical Global Equity Index	Equity	Passive	January 2019	The Fund aims to track the sterling total return of the FTSE4Good Global Equity Index to within +/- 0.5% per annum for two years in three.

LGIM	Pre-Retirement	Bonds	Passive	July 2012	The Fund aims to invest in assets that reflect the investments underlying a typical non-inflation linked pension annuity product. The fund invests in LGIM's Over 15 Year Gilts Index Fund and AAA-AA-A Corporate Bond Over 15 Year Index Fund to gain exposure to these assets. The Fund aims to provide a better investment match for non-LPI linked annuities. The Fund has a fixed interest asset mix that broadly follows that used by annuity providers for non-LPI linked pensions. The Fund's benchmark is kept broadly in line with current pension annuity market investments for non-LPI linked annuities. The Fund, however, cannot provide protection against changes in annuity rates for individual members since these also depend upon a number of other factors.
Schroders	QEP Global Active Value	Equity	Active	July 2012	The Fund aims to exceed the performance of the MSCI World Index (net dividend reinvested) through investing in an unconstrained manner mainly in equities of companies around the world quoted on recognised stock exchanges.