

# **Carl Zeiss Limited Pension & Assurance Scheme**

Statement of Investment  
Principles

August 2020

# Preface

## **Scheme background**

This Statement of Investment Principles (the 'SIP') details the principles governing investment decisions for the Carl Zeiss Limited Pension & Assurance Scheme (the 'Scheme').

The Scheme operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries, and provides benefits calculated on a defined benefit (DB) basis. The Scheme is closed to new entrants. The Scheme is closed to future accrual, but retains a link to final salary.

## **Regulatory requirements and considerations**

Under the Pensions Act 1995 (the 'Act') and subsequent legislation, principally the Occupational Pension Schemes (Investment) Regulations 2005 (the 'Investment Regulations'), the Trustee must secure that a written statement of the principles governing investment decisions is prepared and maintained for the Scheme.

This SIP also reflects the Myners principles for institutional investment decision-making, which require trustee boards to act in a transparent and responsible manner.

The Trustee is responsible for all aspects of the operation of the Scheme including this SIP.

In agreeing the investment strategy, the Trustee has had regard to:

- The requirements of the Act concerning suitability and diversification of investments and the Trustee will consider those requirements on any review of this SIP or any change in the investment policy.
- The requirement of the Investment Regulations: in particular that assets held to cover the Scheme's technical provisions must also be invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.
- In respect of the additional voluntary contribution (AVC) arrangements provided on a money-purchase basis, the Trustee has taken into account the requirements and recommendations within the Pensions Regulator's code of practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits and regulatory guidance. Information on the Trustee's approach to investment matters within the AVC arrangements is included within this SIP.

## **Responsibilities and appointments**

Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Scheme. The Trustee draws on the expertise of external persons and organisations including the investment consultant, investment managers and the Scheme Actuary. Full details are set out in this SIP.

## **Consultation**

In accordance with the Act, the Trustee has obtained and considered written advice from Buck Consultants (Administration & Investment) Limited (the investment consultant) prior to the preparation (or revision) of this SIP and has consulted the sponsoring employer.

However, it should be noted that neither the Trustee (nor any investment manager to whom they have delegated any discretion to make decisions about investments) shall require the consent of the sponsoring employer to exercise any investment power.

### **History and review**

The Trustee will review this SIP at least every three years and without delay after each significant change in investment policy, taking note of any changes in the Scheme's liabilities. Once agreed, and after consultation with the sponsoring employer, a copy of this SIP will be given to the Scheme Actuary and will be made available to Scheme members on request.

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# Statement of Investment Principles

## **Investment governance structure**

All investment decisions relating to the Scheme are under the control of the Trustee without constraint by the sponsoring employer. The Trustee will consult with the sponsoring employer when changing this SIP.

All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. Investment management agreements and/or an insurance contract have been exchanged with the investment managers, and are reviewed from time-to-time to ensure that the manner in which they make investments on behalf of the Trustee is suitable for the Scheme, and appropriately diversified.

## **Investment strategy and objectives**

The Scheme's investment strategy has been agreed by the Trustee having taken advice from the investment consultant in relation to the suitability of investments and the need to diversify and takes due account of the Scheme's liability profile along with the level of disclosed surplus or deficit.

The agreed investment strategy is based on an analysis of the Scheme's liability profile, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values may demonstrate higher volatility. The Trustee is prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.

The Trustee's primary objectives are:

- To provide appropriate security for all beneficiaries.
- To achieve long-term growth sufficient to provide the benefits from the Scheme.
- To achieve an appropriate balance between risk and return with regards to the cost of the Scheme and the security of the benefits.
- The Trustee has translated its objectives into a suitable strategic asset allocation benchmark for the Scheme, details of which are included in the appendices of this SIP.
- In accordance with the Financial Services & Markets Act 2000, the Trustee is responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to investment managers authorised under the Act. Details are included in the appendices of this SIP.
- The Trustee is responsible for reviewing both the Scheme's asset allocation and investment strategy as part of each actuarial valuation in consultation with the Scheme's investment consultant. The Trustee may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.
- The Trustee considers the Scheme's current strategic asset allocation to be consistent with the current financial position of the Scheme.

### **The Trustee's policy in relation to the kinds of investments to be held**

The Trustee has full regard to its investment powers under the Trust Deed and Rules.

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including:

- Equities.
- Fixed interest and index-linked bonds.
- Cash.
- Property.
- Private equity.
- Hedge funds and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes.

The Trustee has considered the attributes of the various asset classes (including derivative instruments), these attributes being:

- Security (or quality) of the investment.
- Yield (expected long-term return).
- Spread (or volatility) of returns.
- Term (or duration) of the investment.
- Exchange rate risk.
- Marketability/liquidity (i.e. the tradability on regulated markets).
- Taxation.

The Trustee considers all of the stated classes of investment to be suitable to the circumstances of the Scheme. The Scheme invests in pooled funds, other collective investment vehicles and cash. The Trustee has made the decision to invest the majority of assets in pooled funds because:

- The Scheme is not large enough to justify direct investment on a cost-effective basis.
- Pooled funds allow the Trustee to invest in a wider range of assets, which serves to reduce risk.
- Pooled funds provide a more liquid form of investment than certain types of direct investment.

### **The Trustee's policy in relation to the balance between different kinds of investments**

The appointed investment managers will hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market each manager will maintain a diversified portfolio of securities. Full details are set out in Appendix 1 of this SIP.

### **The Trustee's policy in relation to the expected return on investments**

The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to reach / maintain a fully funded status under the agreed assumptions.

### **The Trustee's policy in relation to the realisation of investments**

In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustee requires the investment managers to be able to realise the Scheme's investments in

a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate.

#### **The Trustee's policy in relation to financially material considerations**

The Trustee expects the investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.

The Trustee has reviewed the investment managers' policies in respect of financially material considerations and is satisfied that it is consistent with the above approach.

#### **The Trustee's policy in relation to the extent to which non-financial matters are taken into account**

The Trustee's objective is that the financial interests of the Scheme members is their first priority when choosing investments. The Trustee will take members' preferences into account if it considers it appropriate to do so.

#### **Risk capacity and risk appetite**

The Trustee, after seeking appropriate investment advice, has selected a strategic asset allocation benchmark for the Scheme (see Appendix 1).

Subject to their respective benchmarks and guidelines (shown in Appendix 1) the investment managers are given full discretion over the choice of stocks and are expected to maintain a diversified portfolio.

The Trustee is satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

The Trustee is satisfied that the range of vehicles in which the Scheme's assets are invested provides adequate diversification.

#### **The Trustee's policy in relation to risks**

The Trustee considers the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due. The Trustee has assessed the likelihood of undesirable financial outcomes arising in the future.

Investment policies are set with the aim of having sufficient and appropriate assets to cover the Scheme's Technical Provisions, and with the need to avoid undue contribution rate volatility.

In determining its investment strategy, the Trustee receives advice from the investment consultant as to the likely range of funding levels for strategies with differing levels of investment risk relative to the Scheme's liability profile. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the strategy outlined in Appendix 1 of this SIP has been adopted.

Although the Trustee acknowledges that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks, including the following. Namely the risk:

- Associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors.
- Of the Scheme having insufficient liquid assets to meet its immediate liabilities.
- Of the investment managers failing to achieve the required rate of return.
- Due to the lack of diversification of investments.
- Of failure of the Scheme's sponsoring employer to meet its obligations.

The Trustee manages and measures these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

The Trustee undertakes monitoring of the investment managers' performance against their targets and objectives on a regular basis.

Each fund in which the Trustee invests has a stated performance objective by which investment performance will be measured. These are shown in Appendix 1. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.

The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Scheme's investment consultant. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.

### **The Trustee's policy in relation to its investment managers**

In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustee is to select investment managers that meet the primary objectives of the Trustee. As part of the selection process and the ongoing review of the investment managers, the Trustee considers how well each investment manager meets the Trustee's policies and provides value for money over a suitable timeframe.

#### **How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustee's policies**

The Trustee has delegated the day to day management of the Scheme's assets to investment managers. The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

#### **How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term**

The Trustee, in conjunction with the investment consultant, appoints the investment managers and chooses the specific pooled fund to use in order to meet specific Scheme policies. The Trustee expects that the investment managers make decisions based on assessments about the financial and non-financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.



The Trustee also expects its investment managers to take non-financial matters into account as long as the decision does not involve a risk of significant detriment to members' financial interests.

**How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Trustee's investment policies**

The Trustee expects its investment managers to invest the assets within their portfolios in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. The Trustee reviews the investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

If the Trustee determines that the investment manager is no longer managing the assets in line with the Trustee policies, it will make its concerns known to the investment manager and may ultimately disinvest.

The Trustee pays its investment managers a management fee which is a fixed percentage of assets under management. Some investment managers also receive a performance incentive fee.

Prior to agreeing a fee structure, the Trustee, in conjunction with its investment consultant, considers the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

**How the Trustee monitors portfolio turnover costs incurred by the investment manager, and how it defines and monitors targeted portfolio turnover or turnover range**

The Trustee, in conjunction with its investment consultant, has processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustee receives a report which includes the turnover costs incurred by the investment managers used by the Scheme.

The Trustee expects turnover costs of the investment managers to be in line with their peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

The Trustee does not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee believes that the investment managers should follow their stated approaches with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

**The duration of arrangements with investment managers**

The Trustee does not in general enter into fixed long-term agreements with its investment managers and instead retains the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustee's policies. However, the Trustee expects its manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

### **Stewardship in relation to the Scheme's assets**

The Trustee has a fiduciary duty to consider its approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustee can promote an investment's long term success through monitoring, engagement and/or voting, either directly or through its investment managers.

### **Investment management monitoring**

The Trustee will assess the performance, processes and cost effectiveness of the investment managers by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.

All investment decisions, and the overall performance of the investment managers, are monitored by the Trustee with the assistance of the investment consultant.

The investment managers will provide the Trustee with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to their portfolios. The investment managers will also report orally on request to the Trustee.

The investment managers will inform the Trustee of any changes in the internal performance objective and guidelines of any pooled funds used by the Scheme as and when they occur.

The Trustee will assess the quality of the performance and processes of the investment managers by means of a review at least once every three years in consultation with the investment consultant.

The Trustee receives an independent investment performance monitoring report from the investment consultant on a bi-annual basis.

Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

### **The Trustee's policy in relation to engagement and monitoring**

The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and it expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.

### **The Trustee's policy in relation to voting rights**

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustee detailing their voting activity.

### **Employer-related investments**

The Trustee will not make direct investments in the sponsoring employer's own securities. The amount of the sponsoring employer's securities owned by pooled investment vehicles invested in is monitored. The Trustee has delegated the responsibility for the exercising of any voting rights attached to any sponsoring employer investment held to the investment managers.

**Additional voluntary contributions (AVCs)**

The Trustee has closed the Scheme's AVC arrangements to new monies. The Trustee will monitor the performance of the AVC provider, in respect of existing monies held, periodically. The objective is to secure a stable return consistent with that achieved by typical AVC contracts of the kind used for AVC investment, whilst not incurring disproportionate expense in the management of the small portfolio.

The Trustee periodically reviews the options available to members with AVCs at retirement. Members may also transfer out their AVCs to an appropriate arrangement of their choice, without affecting their main scheme benefits. Members are recommended to seek independent financial advice prior to making any decisions in respect of their AVCs.

# Appointments and responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Scheme.

## **Trustee**

The Trustee's primary responsibilities include:

- The preparation of this SIP, reviewing its contents and modifying it if deemed appropriate, in consultation with the sponsoring employer and the investment consultant, at least every three years. The SIP will also be reviewed following a significant change to investment strategy and/or the investment managers.
- Appointing investment consultants and investment managers as necessary for the good stewardship of the Scheme's assets.
- Reviewing the investment strategy as part of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, taking advice from the investment consultant.
- Assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance).
- Monitoring compliance of the investment arrangements with this SIP and with the relevant sections of the Act, the Investment Regulations and any regulatory guidance on a regular basis.
- Monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustee in respect of the Scheme's equity holdings.

## **Investment consultant**

The main responsibilities of the investment consultant include:

- Assisting the Trustee in the preparation and periodic review of this SIP in consultation with the sponsoring employer.
- Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee.
- Advising the Trustee on the selection and review of the investment managers.
- Providing training or education on any investment related matter as and when the Trustee sees fit.
- Monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

## **Investment managers**

The investment managers' main responsibilities include:

- Investing the assets within their portfolio in a manner that is consistent with the objectives set out in this SIP.
- Ensuring that the investment of the assets within their portfolio is compliant with prevailing legislation and the constraints detailed in this SIP.

- Providing the Trustee with quarterly reports including any changes to the investment process and a review of the investment performance of their portfolio.
- Meetings with the Trustee as and when required.
- Informing the Trustee of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund within their portfolio as and when they occur.
- Considering financially material risks affecting investments within their portfolio.
- Exercising voting rights on shareholdings within their portfolio in accordance with their general policy.

### **Custodian**

The custodians' main responsibilities include:

- The safe-keeping of the Scheme's assets in respect of which they are responsible.
- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

### **Administrators**

The administrators' main responsibilities in respect of investment matters include:

- The day to day administration of the Scheme and the submission of specified statutory documentation, as delegated by the Trustee.

### **Scheme Actuary**

The Scheme Actuary's main responsibilities in respect of investment policy include:

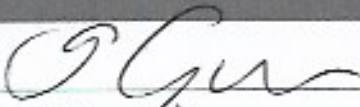
- Commenting on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
- Performing the triennial (or more frequently as required) actuarial valuation and advising on the Scheme's funding level and therefore the appropriate level of contributions in order to aid the Trustee in balancing short-term and long-term investment objectives.

The Scheme Actuary is Steven Roper of Buck.

## Compliance

The Scheme's SIP is available to members on request.

This SIP, taken as a whole with the Appendices, supersedes all others and was approved by the Trustee.

Full name	
Signature	
Position	Trustee
For and on behalf of	Capital Cranfield Pension Trustees Ltd
Date	10/8/20

## Appendix 1 – Strategic benchmark and objectives

### Scheme's target asset allocation

The Scheme's target asset allocation is tabulated below:

Asset type	Investment style	Allocation (%)
Global Equities	Passive	20.0
UK Property	Active	10.0
Diversified Alternatives	Active	15.0
<b>Return enhancing</b>		<b>45.0</b>
Corporate Bonds	Active	30.0
High Yield Bonds	Active	10.0
Liability Driven Investment	Passive	15.0
<b>Risk reducing</b>		<b>55.0</b>
<b>Total</b>		<b>100.0</b>

### Benchmark and performance objectives

Benchmark indices and relative performance objectives for each of the funds in which the Scheme's assets are invested are outlined below. All performance targets are gross of fees and relate to rolling three-year periods unless otherwise stated.

Manager	Fund	Benchmark index	Objective Performance % p.a.
LGIM	Global Equity Fixed Weights 50:50 Index	See note <sup>1</sup>	Track Index
LGIM	Managed Property	IPD UK Quarterly All Balanced Property Fund	Outperform over three and five year periods
Partners Group	Partners Fund	See note <sup>2</sup>	IRR of 8-12 (net) over a market cycle

<b>Manager</b>	<b>Fund</b>	<b>Benchmark index</b>	<b>Objective Performance % p.a.</b>
LGIM	Investment Grade Corporate Bond Over 15 Year Index	iBoxx Sterling Non-Gilts Over 15 Year	Track Index
LGIM	High Yield Bond	BofAML Global High Yield BB-B Rated (excluding financials) 2% Constrained	+1.0
LGIM	Matching Core Real Long	Market iBoxx Real Long	Track Index

#### Notes

1. The benchmark is a composite of 50% UK Equities, 17.5% North American Equities, 17.5% European (ex UK) Equities, 8.75% Japanese Equities and 6.25% Asia Pacific (ex Japan) equities.
2. The fund has no set benchmark.



## Appendix 2 – Fees

### Investment manager fees

Manager	Fund	Investment style	Management fee % p.a.
LGIM	Global Equity Fixed Weights 50:50 Index	Passive	AUM £0 - £2.5m 0.165
			£2.5m - £10.0m 0.155
			£10.0m - £25.0m 0.14
	Managed Property	Active	AUM £0-£2.5m 0.70
			£2.5m -£5.0m 0.65
			£5m+ 0.60
Investment Grade Corporate Bond Over 15 Year Index	Passive	AUM £0 - £5.0m 0.15	
		£5.0m - £10.0m 0.125	
		£10.0m - £30.0m 0.10	
High Yield Bond	Active	0.40	
Matching Core Real Long	Passive	0.24	
Partners Group	Partners Fund	Active	1.50*

\* A performance fee of 12.5% also applies

### Investment consultancy fees

The investment consultancy services are provided by Buck Consultants (Administration & Investment) Limited. The investment consultant provides services on both a fixed fee and a time cost basis.

The basis of remuneration is kept under review.