The Calmac Pension Fund (the "Fund")

Statement of Investment Principles (the "Statement")

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005). The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments. A separate document, the Investment Policy Implementation Document ("IPID"), detailing the specifics of the Fund's investment arrangements is available upon request.

The effective date of this Statement is **1 December 2024**. The Trustees will review this Statement annually and the Fund's investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

Consultations made

The Trustees are responsible for the investment strategy of the Calmac Pension Fund and have obtained written advice on the investment strategy appropriate for the Fund and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited who are authorised and regulated by the Financial Conduct Authority.

The day-to-day management of the Fund's assets has been delegated to investment managers which are authorised and regulated by the Financial Conduct Authority. A copy of this Statement has been provided to the investment managers appointed, is available to the members of the Fund on request and will be published on a publicly accessible website.

The Trustees have consulted with the principal employer, Caledonian Maritime Assets Limited, prior to writing this Statement.

Objectives and policy for securing objectives

The Trustees' primary objectives for setting the investment strategy of the Fund are set out below:

- **"funding objective"** - to ensure that the Fund has sufficient assets available to pay members' benefits as and when they arise using assumptions underlying the calculation of the Fund's technical provisions. Where an actuarial valuation reveals a funding deficit, a recovery plan will be put in place which will seek to remove the deficit over a period determined by the financial covenant of the employer;

- **"security objective"** - to ensure that the solvency position of the Fund (as assessed on a realistic market basis) is expected to improve. The Trustees will take into account the strength of employer's covenant when determining the required expected improvement in the solvency position of the Fund; and

- **"stability objective"** - to have due regard to the employer's ability in meeting its contribution payments given their size and incidence, and to have due regard to the volatility of measures of funding and security.

The investment strategy chosen by the Trustees aims to maximise the likelihood of achieving these objectives. The Trustees recognise that these objectives may conflict. For example, a greater allocation to more defensive assets may give greater security but may result in a level of contributions which the employer may find too difficult to support. The Trustees also recognise that in resolving this conflict, it is necessary to accept some risk.

Choosing investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Fund, its cashflow requirements, the funding level of the Fund and the Trustees' objectives. The assets of the Fund are invested in the best interests of the members and beneficiaries.

A broad range of available asset classes has been considered. This includes consideration of so called "alternative" asset classes (such as property, private credit and infrastructure).

The Trustees exercise their powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the Fund as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The assets of the Fund are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the Fund as a whole. The diversification is both within and across the major asset classes.

Day to day selection of stocks is delegated to investment managers appointed by the Trustees.

Assets held to cover the Fund's liabilities are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Fund.

Investment strategy

The Fund's investment strategy has been established and this is reviewed regularly by the FIC, on behalf of the Trustees, to determine whether any rebalancing is required. Input is sought in relation to any rebalancing from the Trustees' investment adviser.

	Target Weight	Control Ranges
Growth Portfolio	**60%**	
Equities	**22.5%**	**15-30%**
Property	**5%**	**0-10%**
Corporate Bonds	**12.5%**	**0-20%**
Illiquids	**20%**	**0-30%**
LDI Portfolio	**40%**	
Liability Driven Investment (LDI) (including low risk collateral and cash)	**40%**	**35-60%**
Total	**100%**	

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

The balance between different kinds of investments

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation. They therefore retain responsibility for setting asset allocation and take expert advice as required from their investment adviser.

The investment strategy set out in the IPID was implemented after considering the result of an asset and liability modelling exercise undertaken in conjunction with the triennial actuarial valuation.

Investment risk measurement and management

The key investment risks are recognised as arising from investment strategy, employer failure and investment managers.

Investment strategy risks

This is the risk arising from the failure of the selected long-term investment strategy to deliver the level of expected return or risk characteristics necessary to meet the Fund's long-term objectives.

To manage this, the Trustees use asset and liability modelling, which is carried out in conjunction with each formal actuarial valuation of the Fund (or more frequently should the circumstances of the Fund change in a material way), as the basis for setting and reviewing the continued appropriateness of the Fund's investment strategy and the suitability of alternative strategies. Therefore, as a minimum the investment strategy is reviewed once every three years.

The Trustees regularly check that the funding and investment strategy remains on target to achieve the Trustees' objectives within acceptable parameters. If not, then corrective action is considered. Additional funding assessments will be carried out as and when the Trustees deem appropriate.

Employer failure risks

This is the level of the ability and/or willingness of the sponsoring employer to support the continuation of the Fund and to make good any current or future deficit (i.e. the strength of the covenant). Risks associated with the employer's covenant are assessed in conjunction with each triennial actuarial valuation of the Fund by obtaining detailed information from the employer and monitored through regular interaction between the Trustees and the employer.

As part of this process, the employer will advise the Trustees of any events which have the potential to alter the ability and/or willingness of the employer to support the Fund. In particular, the Trustees will be informed of "Type A" events, as defined in appropriate guidance issued by the Pensions Regulator and employer-related Notifiable Events. The Trustees' willingness to take investment risk depends on the strength of the employer covenant. Therefore, on receipt of such notification, the Trustees will re-consider the continued appropriateness of the Fund's existing investment strategy.

The Trustees will share regular funding level (assessed on the Fund's technical provisions basis) information with the Employer via the Annual Funding update report (required under legislation) and other ad-hoc updates at Trustees' meetings.

Investment manager risks

This is the risk of possible failure by the Fund's investment managers to achieve their stated objectives. This is mitigated through diversification of the Fund's assets across a range of investment managers.

The review and selection of investment managers is carried out (usually every three years), as appropriate, and is based on expert advice taken from the Trustees' investment advisers, Aon. The Trustees have appointed Aon to alert them to any matters of material significance that might affect the ability of their appointed investment managers to achieve their performance objectives. Should there be any matters arising which the Trustees wish to discuss, and taking into account advice from their investment adviser, the Trustees will then meet with their appointed managers.

The Trustees receive, on a quarterly basis, a consolidated manager investment performance report, detailing the current valuation of assets held and performance (relative to their objective) achieved by each of the managers employed over the period.

Cash flow (or liquidity) risks

Cash flow risk is the risk of a shortfall of liquid assets (which may also include any cash held from time to time in the Trustees Bank Account) relative to the Fund's benefit payment obligations and arises from the need to realise assets in the short term. If realisations of investments to meet the benefit outgo were to be made at a time when prices are depressed this could reduce the likelihood of meeting the primary objectives. To manage this, the Trustees and their advisers regularly monitor the Fund's cash flow requirements over the short-term.

Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The investment managers of the pooled fund are responsible for the appointment and monitoring of the custodian of the pooled fund's assets. The custodians appointed by the investment managers are independent of the employer.

Expected returns on assets

Based on Aon's capital market assumptions, the Trustees' long-term expectations are as follows:

(i) To achieve a net return on the "Growth" portfolio component of 3.5% per annum in excess of that obtained on gilts on a three-year rolling basis.

(ii) For the "LDI" portfolio to match the movements of a proportion of the Fund's liabilities on an exposure basis.

Realisation of investments/liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

Responsible Investment and Stewardship

In setting the Fund's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance (ESG) factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Fund's asset allocation, when selecting managers and when monitoring their performance.

Stewardship – Voting and Engagement

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Fund invests, as this ultimately this creates long-term financial value for the Fund and its beneficiaries.

The Trustees regularly review the suitability of the Fund's appointed investment managers and take advice from their investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling materially short of the standards the Trustees have set out in this policy, the Trustees undertake to engage with the manager and seek advice from the investment adviser as to what the most appropriate next steps should be.

The Trustees review the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions. The Trustees will review this, with the support of their investment adviser, and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustees' rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustees will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, as noted below, are being actioned. This will take the form of annual reporting which will be made available to Fund members on request.

The transparency for voting should include voting actions and rationale with relevance to the Fund, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustees or the investment manager.

Where voting is concerned the Trustees expect their investment managers to recall stock lending as necessary, in order to carry out voting actions.

From time to time, the Trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Trustees may engage (either with the investment managers or with underling investee companies) on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the Fund's investment strategy, the Trustees would note, consider and discuss views of Fund members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]) where these are shared with the Trustees. Additionally, the Board of Trustees includes a number of member nominated representatives who share members' views and perspectives with the Trustees to ensure that consideration is given to these matters.

Arrangements with Investment Managers

The Trustees regularly monitor the Fund's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustees' policies, including those on non-financial matters. This includes monitoring the extent to which investment managers:

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

The Trustees are supported in this monitoring activity by their investment adviser.

The Trustees receive quarterly reports and verbal updates from their investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Fund objectives and assess the investment managers over 3-year periods.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their investment managers, which supports the Trustees in determining the extent to which the Fund's engagement policy has been followed throughout the year.

The Trustees share the policies, as set out in this Statement, with the Fund's investment managers, and request that the investment managers review and confirm whether their approach is in alignment with the Trustees' policies.

Before appointment of a new investment manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies. Where possible, the

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

Trustees will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Fund invests in a collective vehicle, then the Trustees will express their expectations to the investment managers in by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustees believe that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial performance. The Trustees do not expect their managers to take particular account of non-financial performance in their decision making.

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

There is typically no set duration for arrangements with investment managers, although the continued appointment of all of the Fund's investment managers will be reviewed periodically, and at least every three years. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Monitoring of Investment Manager Costs

Evaluation of Performance and Remuneration

The Trustees evaluate the performance of their investment managers relative to their respective objectives on a regular basis via consolidated investment monitoring reports and updates from the investment managers. The Trustees also review the remuneration of the Fund's investment managers on an annual basis to ensure that these costs are reasonable in the context of the kind and balance of investments held.

Portfolio Turnover Costs

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Fund's investment adviser monitors this on behalf of the Trustees as part of the manager monitoring they provide to the Trustees and flags to the Trustees where there are concerns.

Additional Voluntary Contributions ("AVCs") arrangements

Members of the Fund can pay AVCs, which are invested and used to increase pension benefits at retirement, or in the event of death. The Trustees have selected an insured contract with Standard Life Assurance Limited for this purpose. The Trustees' objective is to provide investment vehicles that enable these members to generate suitable returns, consistent with their circumstances and reasonable expectations. The Trustees consider that the current arrangement has a suitable range of options to meet these expectations.

Effective decision making

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice received. The Trustees receive regular investment training from their investment adviser and also investment managers in order to make informed decisions.

The Trustees believe that given the scale of the Fund, an investment sub-committee is appropriate. All investment proposals are discussed by the investment sub-committee initially, with assistance from the Fund's investment adviser, and then referred to the main Board of Trustees before decisions are taken.

Date: 1 December 2024

Agreed by the Trustees of the Calmac Pension Fund