Catalent UK Retirement and Death Benefit Plan

Statement of Investment Principles

January 2025

## Introduction

This document is the Statement of Investment Principles for the Catalent UK Retirement and Death Benefit Plan (the “Plan”). It has been prepared by Dalriada Trustees Limited as trustee of the Plan (the “Trustee”), considering the relevant legislation.

The Statement sets out the high-level objectives, principles and policies governing the investment decisions of the Trustee.

## Governance arrangements

The Trustee has ultimate responsibility for the management of the Plan and its investments, but it delegates various decisions and responsibilities to specialist advisers and service providers. The Trustee ensures that appropriate guidelines and restrictions are agreed with each party to clearly set out their responsibilities and the scope of their powers. The Trustee takes all such steps as are reasonable to satisfy themselves that the parties to whom they delegate responsibilities have the appropriate knowledge and experience required for their role.

A key investment appointment is the Fiduciary Manager, a professional investment firm with expertise in investment and risk management for pension funds. The Fiduciary Manager provides investment advice and investment management services to the Trustee, including advice on setting the Investment Objective and preparing this Statement. Many of the details of this document are reflected in the Investment Management Agreement of the Fiduciary Manager.

## Investment Objective

#### **Long Term Objectives**

The primary objective of the Trustee is to pay members’ benefits in full as they fall due.

The first milestone is to achieve full funding on the Technical Provisions basis. This is expected to be achieved through a combination of contributions from the sponsoring employer, as set out in the Recovery Plan, and generating investment returns in excess of the liabilities using a risk-controlled approach.

Once full funding on the Technical Provisions basis is achieved, the Trustee will continue to seek further improvements in the funding position, through investment returns in excess of the liabilities using a risk-controlled approach and through additional contributions from the sponsoring employer.

The level of investment risk may be adjusted by the Trustee over time to reflect improvements in the funding level and/or changes in the ability of the Sponsor to support the Plan. These considerations will inform the Trustee’s view of what is the most secure method at the time to meet the promised benefits for all members of the Plan.

#### **Investment Objectives**

A performance objective, known as the “Investment Objective” is set and reviewed by the Trustee. The Investment Objective is set to ensure consistency with the Trustee’s primary objective and Statement of Funding Principles. When setting the Investment Objective, the Trustee considers the trade-off between expected returns and investment risk.

*Investment Objective*

*The Trustee aims to achieve a return on the Plan’s assets of 0.75% p.a. (net of fees) above the return of the Liability Benchmark, over a rolling 5-year period.*

The Liability Benchmark is a measure of the return on the Plan’s liabilities on a gilts-flat (low risk) basis. This benchmark is agreed between the Trustee and the Fiduciary Manager and is periodically updated, such as after triennial actuarial valuations.

The Investment Objective is specified in the guidelines to the Investment Management Agreement between the Trustee and the Fiduciary Manager. The Fiduciary Manager is tasked with investing the Plan’s assets to target the Investment Objective over rolling 5-year periods whilst, at the same time, reducing short-term volatility in the funding position and the chance of large losses.

A risk guideline limit of 5% p.a. has been set for the volatility of the funding position and the Fiduciary Manager is required to monitor the realised risk levels to ensure they remain below this level. If the risk guideline is exceeded, the Fiduciary Manager will notify the Trustee in writing, explain why the guideline has been exceeded and confirm either that it is comfortable running the portfolio at a risk level above the guideline or the actions it proposes to reduce the risk level below the guideline.

## Risk

The key risk to the Plan is that the value of assets is insufficient relative to the value of the liabilities. This is called solvency risk and ultimately could lead to there being insufficient assets to secure all benefits.

There are many other individual risk factors which have the potential to contribute to solvency risk. Given the complex, and interrelated, nature of these risks, the Trustee considers most of these risks in a qualitative rather than quantitative manner.

The Trustee works with the Fiduciary Manager to regularly monitor the risks affecting the investments and to manage them where possible to avoid the accumulation of excessive risk exposures. The main risk factors affecting the Plan are described in the Appendix, along with a summary of how each is measured and managed.

## Investment policies

#### **Securing compliance with the duty to choose Plan investments under Section 36 of the Pensions Act**

In advance of choosing investments, the Trustee obtains and considers advice from the Fiduciary Manager. This advice considers the overall suitability of the investments in relation to several key investment principles.

This advice is not required or sought where the investments are selected on behalf of the Trustee by the Fiduciary Manager, whose appointment was made considering its suitability in relation to these principles.

#### **The kinds of investments held by the Plan**

The full range of assets, detailed targets and restrictions are agreed between the Trustee and the Fiduciary Manager and may change over time. These are recorded in the Investment Management Agreement between the Trustee and the Fiduciary Manager.

The Plan’s assets are split between two sub-portfolios. The Trustee has delegated responsibility for managing these sub-portfolios to the Fiduciary Manager, including the appropriate balance between these sub-portfolios to achieve the Trustee’s investment objectives.

**LDI Portfolio**

These assets aim to reduce the risk that the Plan’s funding position deteriorates because of changes in the value of its liabilities from movements in long-term interest rate and/or inflation expectations.

The portfolio seeks to broadly match an agreed portion of interest rate and inflation sensitivities inherent in the Plan’s liability benchmark, which is known as the target hedge ratio. The Trustee has determined that the appropriate target hedge ratio for the Plan’s investment strategy is 100% of the funded liabilities (100% of the asset value). This target hedge ratio has been provided to the Fiduciary Manager.

These assets are invested in a mixture of cash, physical gilts and leveraged gilts. The Fiduciary Manager considers any interest rate or inflation sensitivity arising from the Cashflow Portfolio when managing the LDI Portfolio.

**Cashflow Portfolio**

These assets aim to generate returns and cashflows that are expected to be used to meet members’ benefits as they fall due.

The portfolio largely consists of high-quality bonds, including those issued by government-related entities and corporates, whose return, when held-to-maturity, is known subject to default experience.

The portfolio may also include allocations to other credit-based assets such as asset backed securities, collateralised loan obligations, multi-asset credit, other forms of structured credit, , etc. to help to deliver additional return and cashflow to the portfolio. The performance of these assets is driven by exposure to credit markets and the skill of any investment managers appointed to avoid defaults.

**Illiquid Asset Portfolio**

The Plan holds a small number of illiquid assets (i.e. assets that cannot easily be sold before maturity) managed by third-party investment managers which are mature and are expected to run off or be realised over the next few years. The Trustee aims to run-off any remaining illiquid assets over a reasonable period of time but may consider accelerated realisations to improve the liquidity of the portfolio if such realisations were consistent with the Trustee’s Investment Objectives. The Fiduciary Manager is not permitted to make any new investments in illiquid assets.

The performance of the Illiquid Asset Portfolio is expected to be driven by a combination of market returns, the illiquidity premium (the excess return investors expect when committing capital for an extended period) and the manager’s skill, as these investments are typically in specialist areas.

Taken together, the LDI Portfolio, Cashflow Portfolio and Illiquid Asset Portfolio are expected to result in the total Plan’s assets delivering stable returns relative to its liabilities, consistent with the Trustee’s Investment Objective.

#### **The balance between different kinds of investments**

The Trustee has set guidelines for the Fiduciary Manager which include permissible ranges for each kind of investment. The Fiduciary Manager adjusts the balance of investments in response to evolving market conditions and is responsible for ensuring that:

* The assets remain invested within the guidelines;
* The balance of assets is appropriate to achieve the Investment Objective over the long term;
* There is sufficient liquidity to meet cashflow requirements; and
* There is sufficient collateral available to manage the collateral risk of any derivative positions

#### **The expected return on investments**

The Trustee delegates assessment of the expected return on investments to the Fiduciary Manager. This is one of the factors taken into account by the Fiduciary Manager when selecting the balance of assets to target the Investment Objective.

#### **The realisation of investments**

The Trustee delegates decisions around the realisation of investments to the Fiduciary Manager. Assets are realised as part of the rebalancing of assets in response to changing market conditions and may be redeemed to meet the cashflow needs of the Plan.

#### **Arrangements with the Fiduciary Manager**

The Trustee delegates various activities in relation to the Plan’s investments to the Fiduciary Manager as set out in this Statement. The Fiduciary Manager is responsible, in particular, for ensuring each underlying investment manager is aligned with the Trustee’s policies as set out below.

The Trustee keeps the Fiduciary Manager’s performance under review, focusing on longer-term outcomes. The Trustee receives regular reports from the Fiduciary Manager, including on portfolio turnover costs incurred by the underlying investment managers. The Trustee’s review process includes specific consideration of how the Fiduciary Manager has implemented the responsible investing policies and engagement activities included in this Statement.

The Fiduciary Manager is responsible for assessing and integrating climate change-related risks and opportunities within the Plan’s portfolio. The Fiduciary Manager is expected to incorporate these factors into investment decision making and specifically to:

* Maintain processes to identify, manage and effectively monitor climate-related risks and opportunities which are relevant to the Plan and its investments over the short-, medium- and long-term; and
* Support integrated risk management and governance via regular reporting to the Trustee (at least annually) on the Fiduciary Manager’s climate integration progress, climate-related metrics and/or climate scenario analysis applicable to the Plan’s portfolio.

The Fiduciary Manager’s [Sustainable Investment Policy](https://protect.checkpoint.com/v2/___https://www.cardano.co.uk/sustainability-policies/___.YzJ1OmNhdGFsZW50OmM6bzpjNzZhZjA1MDExMjYzZDQ4NDkxNTJmODQ1ZTcyYmJlMjo2OjZmZTM6MThlYjQzMzg4NzBiN2E4MDgyNGIwMmQ3NjBjM2Q5N2YwMWQ2Mjk1NDc1ZjI3N2RhODNiNDdiMmY1YTI3YzU0MDpwOlQ6Tg) describes how the Fiduciary Manager integrates sustainability throughout its investment activities. The policy is reviewed at least annually.

Although the Trustee’s arrangement with the Fiduciary Manager is expected by the Trustee to be a long-term partnership, the Fiduciary Manager’s appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team or where the Fiduciary Manager fails to ensure alignment between underlying investment managers and the Trustee’s policies.

The Fiduciary Manager is paid an Advisory and Investment Management fee in line with normal market practice, for the given scope of services which includes consideration of long-term factors, responsible investment, and engagement. The Trustee reviews the costs incurred in managing the Plan’s assets annually.

#### **Arrangements with all Investment Managers**

The Trustee believes that an understanding of, and engagement with, Investment Managers’ arrangements (including the Fiduciary Manager, where the Fiduciary Manager manages investments directly) is required to ensure they are aligned with the Trustee’s policies, including its Responsible Investment policy. In accordance with latest regulation, it is the Trustee’s policy to ensure that the following are understood and monitored by the Fiduciary Manager:

* How investment manager arrangements incentivise investment managers to align their strategy and decisions with the Trustee’s policies
* How investment manager arrangements incentivise investment managers to make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity to improve their performance in the medium- to long-term
* How the method (and time horizon) of the evaluation of investment managers’ performance and their remuneration are in line with the Trustee’s policies
* Portfolio turnover costs incurred by the investment managers, in the context of the investment manager’s targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold)
* Duration of the arrangement with the investment manager

The responsibility for monitoring these aspects day to day has been delegated to the Fiduciary Manager. They are responsible for ensuring each underlying investment manager is aligned with the Trustee’s policies at the time of appointment or explaining why this is not the case. They are also required to report back to the Trustee on any areas of potential divergence between Trustee policy and investment manager practice on an ongoing basis, including their own.

Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the Fiduciary Manager, who will collate the qualitative and quantitative information required to allow the Trustee to review all the above aspects in sufficient detail each year. The Trustee will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

Underlying managers appointed by the Fiduciary Manager can be terminated at the Fiduciary Manager’s discretion. Reasons for termination include, but are not limited to: poor performance, poor client service, client strategy development, loss of key individuals within the investment manager’s organisation, M&A activity and operational constraints.

#### **Additional Voluntary Contributions (AVC) Investments**

The Trustee’s policy is to review their direct investments and to obtain written advice about them at regular intervals. These include vehicles available for Additional Voluntary Contributions (“AVCs”) for members who have elected to pay AVCs to secure additional benefits on a money purchase basis. These assets are invested separately from the main fund by way of an insurance policy with Utmost Life.

## Responsible investment

#### **Financially material considerations over the appropriate time horizon of the investments**

The Trustee believes that by being a responsible investor, they are managing investment risk with the aim of enhancing long-term portfolio returns, which is in the best interests of the members and beneficiaries of the Plan. Beyond these requirements of responsible investing, the Trustee does not explicitly target any non-financial matters in their investment decision making.

When considering climate change-related risks within the portfolio, the Fiduciary Manager, evaluates the following time horizons when performing climate scenario analysis:

* Short-term: 3 to 5 years
* Medium-term: 5 to 15 years
* Long-term: 15 years through to 2050

Given the profile of the Plan’s membership, and the time periods over which the assets are invested, the Trustee believes that these time periods are appropriate to evaluate the impact of climate change-related risks and opportunities within the portfolio.

A long-term time horizon of 2050 is consistent with the UK Government’s own ambitions and prevailing legislation, and is also consistent with the aims of the Paris Climate Agreement.

#### **The exercise of the rights (including voting rights) attaching to the investments**

The Trustee’s policy is to delegate responsibility for the exercising of rights (including voting rights) attached to any investments to the Plan’s investment managers. The Fiduciary Manager encourages the Plan’s investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

#### **Undertaking engagement activities in respect of the investments**

The Trustee believes the integration of stewardship duties into the investment process helps them to fulfil their responsibilities. Implementing voting and engagement policies helps drive long term value for beneficiaries. This is achieved through targeted voting and engagement, which encourages better corporate management of environmental, social and governance issues and promotes more stable capital markets and economies.

In particular, the Trustee recognises that engagement is essential for addressing and managing climate change-related risks and opportunities within the portfolio and has made the Fiduciary Manager responsible for this engagement activity.

Where assets are managed directly by the Fiduciary Manager, it engages with a wide range of companies on systemically critical climate-related issues through its own stewardship team as well as participating in collaborative engagement initiatives. Collaborative engagements enable the Fiduciary Manager to increase the scale and impact of its engagement activities and to engage with a broader range of companies on a wider range of issues. The key focus areas for climate-related engagements relate to assessing companies’ actions to support achieving Net Zero emissions by 2050 and limiting global warming to 1.5°C.

Where relevant, the Trustee prefers its investment managers to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.

The Fiduciary Manager is responsible for engaging with investment managers regarding their voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact (and the Trustee monitors the Fiduciary Manager’s activity in this regard).

The Trustee has selected three key stewardship priorities for investment manager engagement to improve alignment with its policies as well as to enhance disclosure. The Trustee has chosen these priorities given they are linked to the UN Sustainable Development Goals and are consistent with aiming to improve the responsible investment characteristics within the portfolio whilst ultimately deliver better outcomes to the Plan’s members. The Trustee’s stewardship priorities are:

* Climate Crisis
* Environmental Impact
* Human Rights

The Fiduciary Manager writes to the Trustee’s investment managers reaffirming and expanding on the Trustee’s policy and expectations. The Trustee expects its investment managers to incorporate these priorities into their voting (where relevant) and engagement practices and the Fiduciary Manager is responsible for monitoring each manager’s disclosures to ensure alignment with these priorities.

#### **Process for agreeing and reviewing this Statement**

The Trustee has obtained written advice on the content of this Statement from the Fiduciary Manager. The Trustee is satisfied that the Fiduciary Manager has the knowledge and experience required by the Pensions Acts to perform this role. The Trustee has also consulted with the principal employer, Catalent UK Swindon Zydis Ltd., on the content of this Statement.

The Trustee monitors compliance with this Statement regularly and will review it at least every three years and immediately following any significant change in investment policy. At each review, further written advice from the Fiduciary Manager and consultation with the principal employer will be sought.

## Appendix A: Investment responsibilities of different parties

The division of investment responsibilities for the Plan is set out below. This list is not exhaustive.

#### **Trustee**

The Trustee has ultimate responsibility for investment decision making. The Trustee’s investment responsibilities include:

* Deciding on an appropriate governance structure for the management of the Plan, including the role of advisers and other third parties
* Setting appropriate investment objectives, following advice from the Fiduciary Manager and the Plan Actuary
* Agreeing the range of investment types to be used to achieve the investment objectives, taking account of the need to manage risks
* Agreeing the policies for governing investment manager arrangements
* Monitoring the appropriateness of the Fiduciary Manager
* Reviewing the content of this Statement at least every three years and following any significant change in investment strategy
* Modifying this Statement, if deemed appropriate, in consultation with the sponsoring employer and with written advice from the Fiduciary Manager
* Monitoring compliance with this Statement on an ongoing basis
* Identifying Trustee training needs

#### **Fiduciary Manager**

The Fiduciary Manager’s role includes providing investment advice to the Trustee and investment management of the assets. A summary of the duties that fall into each category are shown below:

**Fiduciary Manager – investment advice:**

* Advice on setting the Investment Objective
* Risk modelling (including asset-liability analysis)
* Asset class, investment manager and risk reporting
* Advice and monitoring of any direct investments
* Trustee investment training and education
* Advice relating to investment governance and compliance
* Advice on this Statement
* Advice relating to potential conflicts of interest, including their own

**Fiduciary Manager – investment management:**

* Designing and implementing investment solutions appropriate to the investment objective for the Plan, which has been set by the Trustee
* Appointing and removing investment managers
* Investment manager mandate definition and negotiation
* Designing and executing derivative strategies for and on behalf of the Trustee
* Portfolio monitoring, including checking consistency of investment manager arrangements with Trustee policies
* Identifying, managing and effectively monitoring climate-related risks and opportunities which are relevant to the Plan and its investments over the short-, medium- and long-term
* Appointing transition managers for and on behalf of the Trustee
* Advice relating to potential conflicts of interest, including their own

#### **Plan Actuary**

The key aspects of the Plan Actuary’s role that have a bearing on investment decisions include:

* Liaising with the Fiduciary Manager on the suitability of the Plan’s Investment Objective given the liabilities of the Plan
* Ensuring consistency between the Statement of Funding Principles and the Trustee’s Investment Objectives and investment strategy
* Assessing the funding ratio of the Plan by performing valuations and advising on the appropriate contribution levels
* Providing data to enable decisions about hedging liability risks to be taken and implemented
* Estimating the cashflows of the Plan, to be used in the calculation of the value of the liabilities on at least a triennial basis, or more frequently as required
* Advice relating to potential conflicts of interest, including their own

#### **Investment managers**

The investment managers’ responsibilities include:

* Managing the assets delegated to them within the terms of their agreement
* Providing regular reports on their performance, including any agreed benchmark and performance targets
* Providing reports at least annually on portfolio turnover and costs, including their remuneration
* Instructing their custodian on corporate governance and voting issues, including issues relating to Responsible Investment
* Where relevant, providing information at least annually on how they are incentivised to consider both financial and non-financial risks over the medium to long term, including, but not limited to, detailing their engagement activities with investee companies
* Ensure that they are complying with the requirements applicable to them in this Statement. In particular, when investing the assets delegated to them, they must be invested in the best interests of members and beneficiaries. Their powers of investment must be exercised so as to ensure the security, quality, liquidity and profitability of the portfolio as a whole

#### **Providers of direct investments**

Investments held directly by the Plan are held in the form of units in pooled funds, insurance policies or other contractual arrangements. The responsibilities of the providers are set out in the legal documentation for each investment. There is usually an agreement between the provider and the manager who manages the assets underlying the direct investment on a day-to-day basis. This agreement sets out the responsibilities of the manager to the provider.

## Appendix B: Risk factors

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| --- | --- | --- | --- |
| Risk factor | What is the risk? | How is the risk measured? | How is the risk managed? |
| Economic (or market) risk | Economic, financial or political conditions cause the return on investments to be worse than expected, reducing the chance of meeting the long-term investment objective | The Fiduciary Manager monitors the economic exposures and assesses the economic outlook and regularly reports the position to the Trustee | The assets are spread across a range of different investments in a diversified portfolio that manages downside risks and reduces the chance of large losses in stress situations |
| Investment manager risk | The investment managers fail to meet their performance objectives | The Fiduciary Manager monitors manager performance relative to suitable benchmarks and regularly reports the position to the Trustee | Rigorous investment and operational due diligence is performed to appoint managers and close monitoring is performed thereafter |
| Interest rate and inflation risk | The value of the liabilities rises due to either / both the interest rate falling or inflation rising | The Fiduciary Manager monitors any mismatch between the interest rate and inflation sensitivities of the assets relative to the liability benchmark and regularly reports the position to the Trustee | The liability benchmark is designed to reflect the sensitivity of the liabilities to interest rate and inflation risk. The LDI portfolio is designed to match an agreed portion of these sensitivities |
| Currency risk | Losses arising from the falling value of overseas investments due to strengthening GBP | The Fiduciary Manager monitors the currency risk and regularly reports on the position | The Fiduciary Manager uses currency hedging to limit currency risk where it feels that currency risk is unrewarded |
| Concentration risk | Underperformance in some of the investments has a large, adverse, impact on the total portfolio | The Fiduciary Manager monitors the portfolio’s concentration and reports on the position | The Fiduciary Manager has been set guidelines including diversification limits |
| Credit risk | The risk of loss arising from the default of expected cashflows | The Fiduciary Manager monitors the credit risk and regularly reports on the position | The Fiduciary Manager operates within guidelines which set out diversification and credit limits. The Fiduciary Manager assesses and considers the appropriateness of these guidelines where 3rd-party managers are used |
| Liquidity risk | There is a shortfall in liquid assets relative to the Plan’s immediate cashflow requirements | The Fiduciary Manager and the administrator monitor the Plan’s cashflow needs and reports on the position to the Trustee as needed | The Fiduciary Manager operates within guidelines that ensure that the assets are spread across a range of investments and that the assets have a minimum level of liquidity |
| Operational risk | Loss arising as a result of fraud, acts of negligence or lack of suitable processes | The Fiduciary Manager monitors the operational procedures of collective investment schemes and bank counterparties and reports on the position as needed | The Fiduciary Manager undertakes its own due diligence to identify the operational risks associated with each service provider. The Trustee ensures that all advisers and 3rd-party service providers are suitably qualified and experienced to perform their role. Suitable liability and compensation clauses are included in all contracts for professional services |
| Demographic risk | The mortality assumptions used to value the Plan’s liabilities strengthen, resulting in an increase in the value of the liabilities | The Scheme Actuary provides regular updates on changes in demographic assumptions | The Trustee makes an allowance for this risk by setting prudent actuarial assumptions |
| Sponsor risk | The sponsoring employer makes insufficient contributions to support the payment of the Plan’s benefits, leading to greater reliance on investment returns | Assessment of the ability and willingness of the Sponsor to support the continuation of the Plan and to make good any current / future deficit | Sponsor risk has been taken into account by the Trustee when agreeing a suitable recovery plan, investment objective and long-term objective |
| Climate change risk | The potential for physical, transitional and systemic risks arising from climate change to impact both asset and liability values over the short-, medium- and long-term | Qualitative and quantitative scenario analyses can be employed to assess the potential impact on the Plan’s assets and, consequently, the overall portfolio across short-, medium- and long-term time horizons | The Fiduciary Manager monitors the portfolio to identify, assess and manage the ongoing impact of climate-related risks. Climate risks are incorporated into ongoing investment decision making including security selection, exclusions and overall portfolio construction. |
| ESG risk | The potential for non-financial factors to adversely impact the value of the assets or the overall funding position | The Fiduciary Manager measures ESG risk based on the materiality of the potential impact on each investment | The Fiduciary Manager monitors the portfolio regularly to ensure ESG risks are appropriately considered in ongoing investment decisions. The Trustee reviews the Fiduciary Manager’s management of ESG risks |