Spar (UK) Limited Pension Fund

Statement of Investment Principles

Introduction

Section 35 of the Pensions Act 1995 ("the Act") requires the Trustees to prepare a statement of the principles governing investment decisions ("the Statement") for the purposes of the Scheme. This document fulfils that requirement.

The Trustees have previously conducted an investment review, the results of which are reflected in this Statement.

Responsibility for maintaining the Statement and deciding investment policy rests solely with the Trustees. The Trustees will review the Statement at least every three years and after any significant change in investment policy.

Defined Benefit Section

Investment Objectives

The investment objectives of the Scheme are:

(a) The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet the cost of benefits that the Scheme provides as set out in the Trust Deed and Rules;

(b) So far as reasonably possible, to avoid the risk of the assets failing to meet the liabilities on an ongoing basis;

(c) To minimise the long-term costs of the Scheme by maximising the return on the assets so far as is both prudent and consistent with the above objectives.

The Trustees have appointed Baillie Gifford as investment manager, initially utilising two funds in the following proportions:

Fund	Asset Allocation (%)
Equity (Baillie Gifford Global Alpha Growth Fund)	25
Diversified Growth (Baillie Gifford Diversified Growth Fund)	75

These investments were put in place to provide a diversified strategy that had a reasonable expectation to meet the above objectives. The asset classes were appropriate for the long term nature and duration of the benefits payable under the Scheme.

Over time, the asset allocation between the Global Alpha Growth Fund and the Diversified Growth Fund will alter due to investment performance. The Trustees will monitor the allocation and, if they consider that the allocation has changed to an extent that it is no longer appropriate to meet the investment objectives, shall take suitable action.

Investments and Disinvestments

In the normal course of business, day to day investments and disinvestments will be made from the Baillie Gifford Global Alpha Growth Fund and Baillie Gifford Diversified Growth Fund in the same proportion as the initial allocation, i.e. 75% Diversified Growth Fund and 25% Global Alpha Growth Fund.

Delegation of Investment Discretion

The Trustees have delegated day-to-day investment management to the investment manager which is regulated by the Financial Conduct Authority.

The investment manager manages the Scheme's assets in accordance with the following objectives:

Fund	Objective
Baillie Gifford Global Alpha Growth Fund	The fund aims to outperform the MSCI AC World Index by at least 2.0% per annum (before management fees), over rolling five year periods.
Baillie Gifford Diversified Growth Fund	To outperform the UK Base Rate by at least 3.5% per annum (net of fees) over rolling five year periods with an annualised volatility of less than 10%.

The terms of the delegation are set out in agreements between the Trustees and the investment manager. The agreement includes such matters as investment objectives, the procedures for instructions, custody of the assets, voting, fees and charges.

Realisation of Investments

The Trustees will hold sufficient cash to meet the likely expenditure on benefits and expenses from time to time. The Trustees will also hold sufficient assets in liquid investments to meet unexpected cashflow requirements in the majority of circumstances so that, where possible, the realisation of assets will not disrupt the Scheme's overall investment policy.

Expected Return on Investments

The investment strategy was developed by balancing the Trustees' key requirements as they were understood at the time. In the Trustees' opinion, the chosen strategy offers an acceptable trade-off between risk and return.

Investment Management Monitoring

The Trustees receive monthly reports from the investment manager and will meet with their representatives as necessary to review their investment performance and processes. Through this process of regular reporting and review, the Trustees aim to ensure that the investment manager is performing competently and in compliance with this Statement.

Fee Structures for Managers

Baillie Gifford's fees are paid in relation to the size of assets managed. The fees quoted are disclosed as a percentage of the funds on a historical rolling 12 month basis. The fees paid from the net asset value (NAV) are an estimate based on the latest available data and asset allocation of the pooled funds.

Fees paid from each fund's net asset value comprise the total of the fund managers' fees and expenses. Each fund's expenses may include, but are not limited to, depositary fees, custody safe keeping fees, professional fees (e.g. audit fees), relevant expenses deducted from the net asset values of holdings of other open-ended pooled funds and other indirect fees of investment companies. Explicit transaction costs (transaction taxes and broker commissions) arise when buying or selling stocks in the market.

The Trustees believe that these fees represent competitive rates for the types of mandates awarded.

Defined Contribution Section

Investment Policy

The Trustees have appointed Aegon Asset Management ('Aegon') as investment manager. At the time of initial investment, members' pots were invested in a lifestyle fund – the Universal Lifestyle Collection Fund. This balanced and diversified fund was chosen by the Trustees as part of a lifestyle strategy for members who intend to buy an annuity when they retire and do not wish to make their own investment decisions. The DC section of the Fund closed to new contributions from 1 May 2004.

The objective of the Universal Lifestyle Collection Fund is to provide investment growth by investing in return seeking assets in a moderate risk diversified portfolio, followed by a gradual and automatic switching of assets to lower risk assets close to members' retirement ages. It offers a mix of active and passive fund management, which means it doesn't rely on the performance of one manager or management style alone.

Under the lifestyle strategy, members who are more than six years from their target retirement date will be invested in the Universal Balanced Collection Fund. Over the six years before the target retirement date, members' funds will be gradually moved to the Long Gilt Fund. Within one year of their target retirement date, members are automatically switched into the Scottish Equitable Retirement Fund. This fund invests 75% in the Long Gilt Fund and 25% in the Cash Fund to help protect the purchasing power of members' funds, whilst also allowing for members to take their maximum tax-free cash sum at retirement. Members' funds will remain invested in this proportion until they decide otherwise.

By investing in this manner, the Trustees expect the lifestyle fund to deliver growth without excessive risk taking, with an increased focus in the years approaching retirement of reducing volatility to enable members to make financial plans for the period after retirement.

Members may choose to invest in other funds within Aegon's single priced fund range; however, to date, no members have switched to their own strategy. The funds offered give a range of different risk and return characteristics so that members can construct an overall portfolio suitable to provide for their pensions at retirement. If members decide to select their own strategy, they will be responsible for choosing from the range of funds on offer.

Delegation of Investment Discretion

The Trustees have delegated day-to-day investment management to Aegon, which is regulated by the Financial Conduct Authority. The investment manager manages the investments of the Scheme's assets in accordance with the following objectives:

Fund	ISIN	Objective
Aegon / Scottish Equitable plc Universal Lifestyle Collection	GB0031449613	To match the performance of the Association of British Insurers (ABI) Mixed Investment 40%-85% Shares sector average.
Aegon / Scottish Equitable plc Retirement Fund	GB00B75BD853	To match the performance of the composite index consisting of 75% FTSE Actuaries UK Conventional Gilts Over 15 Years and 25% ICE LIBOR LIBID GBP 1 Week.

The terms of the delegation are set out in agreements between the Trustees and the investment manager. The agreement includes such matters as investment objectives, the procedures for instructions, custody of the assets, voting, fees and charges.

Realisation of Investments

The Trustees will realise assets as required following member requests on retirement or earlier where required, provided that the Trustees are satisfied they are acting in the best interest of members. The Trustees' policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

Expected Return on Investments

The Trustees expect the return on the Universal Lifestyle Collection to exceed the return on the Retirement Fund as well as the rate of increase in prices and earnings.

The Trustees expect the return on the Retirement Fund to broadly preserve the size of pension and amount of tax free cash sum available at retirement.

Investment Management Monitoring

The appointment of the investment manager will be reviewed by the Trustees from time to time, based on the results of their monitoring of performance and process and of the investment managers' compliance with the requirements in the Pensions Act 1995 (as amended by the Pensions Act 2004) and the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005.

Fee Structures for Managers

Aegon's fees are paid in relation to the size of assets managed. The Universal Lifestyle Collection Fund and Scottish Equitable Retirement Fund are single priced contracts, each with a fixed annual management charge of 1.0%.

Defined Benefit and Defined Contribution Sections

Risk Management

The Trustees recognise and monitor a number of risks involved in the investment of the assets of the Scheme, including:

- *Solvency risk and mismatching risk:*
    - is monitored through ongoing triennial actuarial valuations of the assets and liabilities, as well as more frequent interim estimates *(only applicable to the defined benefit section)*.
- *Sponsor risk:*
    - is measured by the level of ability and willingness of the Principal Employer to support the continuation of the Scheme and to make good any current or future deficit.
- *Manager risk:*

  - is addressed through the performance objectives and the ongoing monitoring of the investment manager.
  - Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual, and will typically undertake an investment manager selection exercise.

- *Third party risk:*
  - The chosen funds invest in underlying assets. If the underlying investments suspend trading, the investment managers may defer trading and / or payment to investors. Therefore the value ultimately payable will depend on the amount the investment manager receives or expects to receive from the underlying investments.

- *Interest rate risk:*
  - Changes to interest rate could affect the value of bond investments. Where long term interest rates rise, the value of bonds is likely to fall, and vice versa.

- *Risk from lack of diversification:*
  - is mitigated by the Trustees investing in pooled funds with a diversified asset allocation.
  - The Trustees believe that the lifestyle strategy is adequately diversified between different asset classes and that the options provide a suitably diversified range for members to choose from.

- *Liquidity risk:*
  - is addressed by the Scheme's administrators monitoring the level of cash held in order to limit the impact of cashflow requirements on the investment policy.
  - is managed by using pooled funds that deal on a daily basis.

- *Currency risk*:
  - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.
  - The Universal Lifestyle Collection Fund invests overseas so its value will go up and down in line with changes in currency exchange rates. This could have positive or negative impacts, particularly if exchange rates are volatile.

- *Credit risk*:
    - This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme is subject to credit risk because it invests in bonds or other types of debt via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.

- *Political risk:*
    - is measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from political intervention.
    - is managed by regular reviews of the actual investments relative to policy and through assessment of the levels of diversification within the existing policy.

Whilst the risk of poor investment returns (and the cost of securing pensions at retirement) within the DC section is ultimately borne by the members, the Trustees provide members with an optional lifestyle strategy which, unless they choose otherwise, gradually moves each member's accumulated fund into the gilt and cash funds as they approach their target retirement date.

The Trustees recognise and monitor a number of risks involved in the investment of the assets of the lifestyle strategy, specifically including:

- *Fund risk* – As members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. The lifestyle strategy helps reduce risk by moving to less volatile assets as members approach retirement. On this basis, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the lifestyle strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the lifestyle strategy gradually reduce investment risk as the member approaches their target retirement date.

- *Derivative risk* - The Universal Lifestyle Collection Fund uses derivatives to achieve its objectives. Derivatives allow the manager to buy or sell an investment at a specified future date for a specified price. This means the fund could be exposed to additional risks if the market moves up when the manager expected it to go down or vice versa.

- *Inflation risk* – The Retirement Fund is suited to short-term investment as it invests in lower risk investments, where returns are likely to be lower and not keep pace with inflation. This makes it suitable for those members within one year of, and having passed, target retirement age, in order that they can access their funds quickly.

- *Lifestyle strategy risk* – Long gilts and long corporate bonds are used in lifestyle strategies because of their inverse relationship with annuity rates, which protects the purchasing power of members' funds. However, there is a risk that the relationship can fail, for example there can be a delay between changes in long bond values and annuity rates.
- *Post-retirement risk* – Where members have not taken their retirement benefits after their target retirement date, they will remain invested in the Retirement Fund. This asset mix is not designed for long-term investing and returns may not keep pace with inflation, meaning the real value of investments will fall.

Environmental, Social and Corporate Governance Matters

The Scheme's overarching responsibility is to deliver financially sustainable returns for an acceptable level of risk to meet the future pension benefits of the members as they fall due and in a way that employer contributions paid into the Scheme are as stable and affordable as possible.

However, the Trustees also have a duty to act in the best financial interests of the Scheme's beneficiaries and the Scheme is a long-term investor. This includes considering Environmental, Social and Corporate Governance ('ESG') risks and opportunities that may be financially material to the Scheme. The Trustees invest in pooled funds and so the assets are subject to the investment manager's own policies on ESG considerations, including climate change. However, we expect the investment managers to have integrated climate risk into their risk analysis and investment process and, where appropriate and practical, will take it into account when managing new and existing investment arrangements. The Trustees manage this expectation by undertaking due diligence when appointing, monitoring, engaging with and replacing investment managers by:

- Obtaining and familiarising with the investment managers' Responsible Investment or Sustainability policies and implementation reports, Stewardship Code statements and the United Nations-supported Principles for Responsible Investment (PRI) statements;
- Discussing the above documentation as a trustee board;
- Meeting face to face with the managers (when it is appropriate to do so); and
- Take advice from their investment consultant and seek input from other relevant parties.

The current appointed investment managers have opted to sign the PRI. As signatories to the PRI, the investment managers have made the following commitments:

> As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).
>
> We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:
>
> Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
>
> Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
>
> Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
>
> Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
>
> Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
>
> Principle 6: We will each report on our activities and progress towards implementing the Principles.

The investment managers' reports related to PRI and their statements on compliance with the Financial Reporting Council (FRC) Stewardship Code, which is seen as the UK standard for good stewardship, are reviewed by the Trustees at least once every three years.

The Trustees do not currently take non-financial matters (e.g. member ethical views) into account when setting the Scheme's investment policy. This matter will be kept under review and any ethical concerns related to the Scheme's investment portfolio received from members will be addressed, should they arise.

Relationship with investment managers

The Trustees have investment management agreements in place with the investment managers, which set out the contractual relationship between parties and govern key aspects, such as how the Trustees remunerate the investment managers, how the Trustees monitor the performance of the investment managers, the inception of the arrangements with the investment manager, and exit terms.

Incentivising investment managers

The Trustees will monitor the performance of the Fund's investment managers against their agreed objectives, ESG policies and the financial arrangements of the Fund.

Where an investment manager consistently fails to meet the benchmark performance and shows lack of alignment with the Fund's objectives, the Trustees may consider terminating their relationship with the investment manager.

The fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions agreed with the Trustees.

However, there may be circumstances where managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance, engagement and portfolio turnover.

Assessing medium to long-term performance of investments

The Trustees monitor how the investment managers make decisions based on the long-term sustainability of investee companies, their own ESG policies and their approach to climate related risks and disclosures. Where the Trustees have concerns, they will raise this with the investment managers.

Monitoring performance and remuneration

The Trustees monitor the performance of their investment managers on a quarterly basis. When assessing the performance of an investment manager, the Trustees consider:

- The investment managers' financial performance against stated benchmarks and the rest of the market, both in terms of individual performance and their wider role in helping the Scheme meet its long-term objectives.
- How well the investment managers are aligned with the Trustees' investment policies.
- Qualitative factors such as the service provided by the investment managers, including the quality of reporting.

Where the Trustees believe that an investment manager has performed poorly for a material period, they will carry out a formal review, and exceptionally their mandate may be terminated.

The Trustees will ensure that fees paid to the investment manager are consistent with the levels typically available in the industry and the nature of services provided.

Monitoring portfolio turnover and costs

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers.

The Trustees do not believe in setting a portfolio turnover target – being the frequency with which assets are expected to be bought and sold – because they believe that the investment managers have sufficient expertise to make judgement on the appropriate portfolio turnover.

The Trustees monitor the costs incurred by the investment managers in buying and selling investments. The investment managers incorporate portfolio turnover and resulting transaction costs as appropriate in their reporting.

Duration of arrangements with Investment Managers

The duration of the Trustee's arrangements with Investment Managers vary depending on the investment strategy and asset allocation of the relevant portfolio. Due to the long-time horizon for the Fund, the Trustees do not wish to enforce a maximum duration on any investment manager at present, and therefore there is no minimum investment period for investments.

Exercise of rights

The Fund's assets are invested in pooled funds, in which the Fund's assets are pooled with those of other investors.

As such, direct control of the process of engaging with the companies that issue securities, is delegated to the investment managers. The Trustees believe that the investment managers are best placed to engage with investee companies on their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

Spar (UK) Limited Pension Fund

Statement of Investment Principles

This Statement has been agreed by the Trustees of the Spar (UK) Limited Pension Fund.

Name: Ramona Tipnis

Position: Client Director, PTL Governance Ltd

Date: 21 September 2020

On behalf of the Trustees of the Spar (UK) Ltd Pension Fund