Chair’s Statement Regarding DC Section Governance

Chair’s Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020

Introduction

Welcome to the annual Chair’s Statement for Spar (UK) Limited Pension Fund (“the Scheme”). This statement relates to the defined contribution (DC) section of the Fund and covers the requirements set out in the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”). Governance requirements apply to defined contributions (“DC”) pension arrangements, to help members achieve a good outcome from their pension savings. The Trustees of the Scheme are required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met within the DC section in relation to:

- the investment options in which members’ funds are invested;
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a ‘value for members’ assessment; and
- Trustee knowledge and understanding.

This statement covers the period from 1 May 2019 to 30 April 2020.

This Statement will be available online at https://www.spar.co.uk/explore/explore/spar-uk-limited-pension-fund-chair-statement.

Investment arrangements

The Scheme closed to new contributions from 1 May 2004 and therefore does not provide a default arrangement under the meaning of Regulation 3 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 for automatic enrolment purposes or the meaning of Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. The Scheme is not being used as a qualifying scheme for automatic enrolment purposes.

Members who joined the DC section of the Scheme and who did not choose an investment option were placed into the default lifestyle strategy. The lifestyle strategy is called the Universal Lifestyle Collection Fund, managed by Scottish Equitable, operating as Aegon Asset Management (‘Aegon’).

The Trustees are responsible for the Scheme’s investment governance, which includes setting and monitoring the investment strategies.

Details of the investment objectives and the Trustees’ investment policies regarding the DC section can be found in a document called the ‘Statement of Investment Principles’ (“SIP”). The Scheme’s SIP covering the DC section is attached as an appendix to this annual statement regarding governance and is also available online at https://www.spar.co.uk/explore/explore/spar-uk-limited-pension-fund-statement-of-investment-principles.

Chair's Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020 (continued)

The aims and objectives of the DC section, summarised from the SIP, are as follows:

- provide investment growth by investing in return seeking assets in a moderate risk diversified portfolio whilst members are far from their target retirement date; and
- subsequently to gradually and automatically reduce risk as members approach their target retirement date which means that members' assets are automatically moved between different investment funds as they approach their target retirement date.

In turn, 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 switching of assets to lower risk assets during the 6 years before the members' retirement ages to minimise risk and target an asset mix that matches the cost of taking maximum tax free cash and purchasing an annuity with 75% of the member's pot. 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.

The Universal Lifestyle Collection Fund strategy has three stages:

- The Growth Stage – If a member is 6 or more years away from his or her chosen retirement date, their investment account is invested in the Universal Balanced Collection. The Universal Balanced Collection invests at least 60% of its asset allocation in UK and overseas equities;
- The Lifestyle Stage – Over the 6 years before a member's retirement age, their investment account is progressively switched into the Long Gilt Fund.
- The Pre-Retirement Stage - 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.

The DC section is in the process of being wound up and it is expected that members' benefits will be secured with an insurer by the end of 2020. As a result, the fees payable under the new arrangement are expected to be substantially lower. The total annual fund charge for the Scottish Widows' Balanced Fund is 0.22% compared to the 1.00% charged by Aegon for the Universal Balanced Collection Fund.

Chair's Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020 (continued)

As the DC arrangement is close to wind-up, the Trustees have not carried out a formal review of the funds that members are invested in or of the continued appropriateness of the structure of the lifestyle strategy in the scheme year. The last full review of performance was carried out as at 31 May 2013 and the last review of strategy was carried out in August 2013. At that point, it was decided that the Trustees would seek advice on how to wind-up the DC section.

However, over the last 5 years, the Trustees believe that the Universal Lifestyle Collection Fund has achieved its objective as it has exceeded its benchmark of broadly matching the performance of the Association of British Insurers (ABI) Mixed Investment 40% - 85% Shares sector average.

Processing Scheme transactions

The Trustees have received assurance from the Scheme's administrator Hughes Price Walker Limited ("HPW"), and have taken steps to try and ensure, that there were adequate internal controls to ensure that core financial transactions relating to the Scheme were processed promptly and accurately during the scheme year. This includes the processing of transfers out of the Scheme, transfers of assets between different investments within the DC section and payments to members/beneficiaries. The DC section of the Scheme is closed and therefore no contributions or transfers are paid into the DC section.

HPW administers the Scheme in accordance with set procedures, which cover the accuracy and timeliness of all core financial transactions. The processes adopted by HPW include:

- Comprehensive checklists
- Regular monitoring of the Scheme bank account
- At least two persons involved with checking investment and banking transactions.

The Trustees receive regular stewardship reports to help them monitor the performance of the timeliness and accuracy of core financial transactions; using information provided by HPW, which has been reviewed by the auditors, the Trustees are satisfied that over the period covered by this statement:

- HPW was operating appropriate procedures, checks and controls;
- There have been no material administration errors in relation to processing core financial transactions; and
- All core financial transactions have been processed promptly and accurately during the scheme year.

Chair's Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020 (continued)

Member borne charges and transaction costs

The Trustees are required to set out the on-going charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges exclude any other costs, e.g. administration costs, since these are not met by the members.

The Trustees are also required to separately disclose transaction cost figures that are borne by members. In the context of this statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds.

The charges and transaction costs have been supplied by Scottish Equitable, operating as Aegon, which is the investment manager of the DC section.

There is no administration charge if members decide to transfer to another provider.

Chair's Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020 (continued)

Default lifestyle strategy

At the time of initial investment, members' pots were invested in the Universal Lifestyle Collection Fund. The default strategy has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date and in which fund they are invested.

Any members who have passed their normal retirement age and not taken receipt of their benefits reach the end of the lifestyle phasing and their pot is moved to the Scottish Equitable Retirement Fund.

For the period covered by this statement, annualised charges and transaction costs are set out in the table below. The charges and transaction costs for the previous year are shown within brackets. With the exception of the Retirement Fund, the transaction costs reported for the year round to less than 0.001% and have therefore been disclosed by Aegon as 0.00%.

Fund name	Relative to Target Retirement Age (TRA)	TER (% p.a.)	Transaction costs (% p.a.)
Universal Lifestyle Collection	More than 6 years	1.02 (1.02)	0.00 (0.13)
Retirement Fund	Members aged over TRA	1.00 (1.00)	0.03 (0.06)
SE Universal 2020	Members with TRA in 2020	1.00 (1.01)	0.00 (0.11)
SE Universal 2024	Members with TRA in 2024	1.01 (1.01)	0.00 (0.12)
SE Universal 2025	Members with TRA in 2025	1.01 (1.02)	0.00 (0.13)
SE Universal 2027	Members with TRA in 2027	1.02 (N/A last year)	0.00 (N/A last year)

Chair's Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020 (continued)

Self-select options

Members may choose to invest in other funds within Aegon's single priced fund range, of which there are approximately 370 other fund options. These options have not specially been selected by the Trustees but, should a member wish to invest in any, they are asked to contact the Trustees. The Trustees will then make a decision as to whether to select the requested fund and make it available within the Scheme; however, these have not been selected by the Trustees. Within the annual benefit statements, members are informed that they must speak to the Trustees if they want to change their investment funds.

Illustration of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustees have set out below illustrations of the impact of charges and transaction costs on different investment options in the Scheme. The illustrations have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes" on the projection of an example member's pension savings.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustees have had to make a number of assumptions about what these might be. The assumptions are explained below:

- The "before charges" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after charges" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- The transaction cost figures used in the illustration are based on those provided by the managers over the past two years.

Chair's Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020 (continued)

The illustration is shown for the Universal Lifestyle Collection since this is how all members' funds are invested in as at the end of the scheme year.

Scenario: A member aged 44 whose starting pot is assumed to be £35,000

	Projected pension pot in today's money for a member aged 44 (£) – default strategy	
Years	**Before charges deducted**	**After all charges deducted**
1	35,708	35,321
3	37,169	35,972
5	38,688	36,635
10	42,765	38,346
15	45,623	38,736
16	45,821	38,482

Notes on projected scenario calculations:

1. Projected pension pot values are shown in today's money and do not need to be reduced further for the effect of future inflation
2. Starting pot size is assumed to be £35,000 at age 44
3. Inflation is assumed to be 2.5% each year
4. The scenario projection is for 16 years, being the approximate duration that the youngest scheme member has until they reach the Scheme's Normal Pension Age
5. Values shown above are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund
6. The projected growth rates for the funds under the default arrangement are assumed to be as follows:
   - Universal Balanced Collection: 2.1% above inflation
   - Long Gilt: 0.1% below inflation
   - Cash: 0.3% below inflation

   These growth rates are used to calculate the pension pots before charges are deducted.
7. No allowance for active management has been made.

Chair's Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020 (continued)

Value for members assessment

The Trustees are required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of "good value", but the Trustees consider that it broadly means that the combination of costs and the quality of what is provided in return for those costs is appropriate for the scheme membership as a whole, when compared to other options available in the market.

In the last few years, the Trustees have obtained and reviewed several pieces of advice regarding the winding up the DC section. As part of this exercise, they have paid much consideration to the value the section gives to members, including:

- The oversight and governance of the Trustees, including ensuring the Scheme is compliant with relevant legislation and holding regular meetings to monitor the Scheme and address any material issues that may impact members.
- A comparison of the charges borne by members against the levels of return; and
- A comparison of the charges borne by members ('the costs of membership') against the services and benefits provided by the DC section ('the benefits of membership'). The benefits of membership include, amongst other things:
    - the design of the lifestyle strategy and how this reflects the interests of members;
    - the choice of funds provided to members;
    - the options at retirement;
    - the efficiency of administration processes;
    - the quality of communications delivered to members; and
    - the quality of support services and Scheme governance.

The Trustees have also noted that they are satisfied in the Universal Lifestyle Collection Fund's performance and its ability to achieve its aim of broadly matching the performance of the Association of British Insurers (ABI) Mixed Investment 40% - 85% Shares sector average. Over the last 5 years, the lifestyle fund has exceeded its benchmark.

Chair's Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020 (continued)

The Trustees have assessed the charges disclosed by Aegon and are satisfied that the DC section of the Scheme represents reasonable value for members in the context of the outcomes targeted by the lifestyle and retirement fund and the current market rates for similar investments levied on members of schemes with a similar membership profile. The returns on the Universal Life Collection Fund have been consistent with the stated investment objectives. The Trustees believe the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and they expect this to lead to greater investment returns net of fees over time.

Overall, the Trustees believe that members of the Scheme are receiving fair value for money for the charges and costs that they incur. The members have a wide range of investment options available and, as detailed in the earlier section covering processing of financial transactions, the Trustees are comfortable with the quality and efficiency of the administration processes.

However, in consideration of the wind-up advice the Trustees have received, they acknowledge that there are other DC options available in the market that could provide more choice regarding lifestyling approach, retirement options and more wide-ranging communication and on-line access. The Trustees are in the process of winding up the DC section of the Scheme and transferring members' benefits to an alternative arrangement. The fees for the alternative arrangement are lower at 0.22% per annum.

Chair's Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020 (continued)

Trustees' knowledge and understanding

The Scheme's Trustees are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee must:

- Be conversant with the Trust Deed and Rules of the Scheme, the Scheme's Statement of Investment Principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Scheme generally;
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as Trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment of the assets of occupational pension schemes.
- The Trustees have measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below.

The Trustees, with the help of their advisers, regularly consider training requirements to identify any knowledge gaps. The Trustees' investment strategy advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustees' advisers would typically deliver training on such matters at Trustee meetings if they were material. Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the scheme year. During the period covered by this statement, the Trustees received training including the following topics:

- The potential impact of GMP equalisation on their Scheme
- The requirements of the Consultancy and Fiduciary Management Market Investigation Order 2019 upon trustees and their advisers
- The Shareholder Rights Directive for DC or hybrid schemes
- The Pensions Regulator's (TPR) guidance during the COVID-19 pandemic

All the Trustees are familiar with, and have access to, copies of the current scheme governing documentation, including the Trust Deed and Rules (together with any amendments), the SIP and key policies and procedures. In particular, the Trustees refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme and, where relevant, deciding individual member cases, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments.

Further, the Trustees consider that they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

Chair's Statement for the Spar (UK) Limited Pension Fund for the year ended 30 April 2020 (continued)

Trustees' knowledge and understanding (continued)

The two lay trustees both have significant pensions knowledge. Ian Diment has been a trustee of the A F Blakemore & Son Ltd Staff Retirement Benefit Scheme and Capper & Co Ltd Pension Assurance Scheme since 2012 and 2007 respectively. Chris Collins has been secretary to the trustees of the James Hall & Co Pension Scheme for the last 12 years.

A professional independent trustee firm, PTL Governance Limited ("PTL"), was appointed in April 2019. A client director from PTL was assigned to sit alongside the other Trustees, bringing 18 years of actuarial experience. Since the year-end there has been a change of client director with a handover period from April 2020 to July 2020. The new client director from PTL has worked in the investment industry for over 20 years, has been an employer-nominated trustee and also has pension secretarial experience. This gives the trustee body as a whole, access to additional technical and market knowledge. The Trustees have a working knowledge of Scheme documentation, including the Trust Deed and Rules and Trustee policies. This ensures that the Trustees have the confidence and knowledge to challenge advisers appropriately and understand when additional advice is required.

All the Trustees are required to commit to completing the training, either at the relevant meetings or by personal study. New Trustees are expected to complete the Pension Regulator's Trustee Toolkit within six months of taking office. Two of the three trustees have completed the Pensions Regulator's Trustee Toolkit. The remaining Trustee is in the process of completing it and has committed to complete the training within the next 6 months. Trustees receive training, from the Scheme's advisers, on changes in regulation and other topical issues on a regular basis. In particular, the appropriate training is provided ahead of decision points. This ensures that Trustees have the tools with which to consider and make appropriate decisions. The Trustee Toolkit provides modular online training designed to help Trustees understand the aspects of governance, legal requirements, funding and investment that are essential in running a pension scheme effectively. (The Trustee Toolkit is a free online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law.)

Taking into account the knowledge and experience of the Trustees with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisers (e.g. investment strategy advisers, legal advisers), the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.

……………………………………………………………………………………….. Date: ……23 September 2020…………

Signed by the Chair of Trustees of the Spar (UK) Limited Pension Fund

Appendix - The Statement of Investment Principles for the Money Purchase Section of the Scheme

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.

Exercise of rights

As the Trustees invest in pooled funds, the investment managers make decisions related to:

- the exercise of any rights, including voting rights, attaching to the investments; and
- engagement activities in respect of the investments.

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

Signature:

Name: Karein Davie

Position: Client Director, PTL Governance Ltd

Date: 26 September 2019

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