

Statement of Investment Principles

One Stop Stores Pension Scheme

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Contents

- 1. Introduction.....3
- 2. What is the Trustee’s overall investment objective?.....4
- 3. Appointment of investment manager.....8
- 4. Other matters.....9
- 5. Review.....12

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles ("SIP")?

This Statement of Investment Principles ("SIP") sets out the policy of One Stop Stores Trustee Services Limited (the "Trustee") on various matters governing decisions about the investments of the One Stop Stores Senior Executives Pension Scheme (the "Scheme").

1.2. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from the Trustee's investment advisers, Quantum Advisory ("Quantum") as required by the Pensions Act 1995 (the "Act"), the Scheme's definitive trust deed and rules and subsequent legislation. Quantum has the knowledge and experience required under Section 36(6) of the Act.

1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Act and all subsequent legislation, Regulations and guidance from the Pensions Regulator applying to UK pension schemes.

The Scheme's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Scheme's definitive trust deed and rules.

2. What is the Trustee's overall investment objective?

2.1. Investment objective

The Trustee, with the help of its advisers, set the current investment strategy following a consideration of their objectives and other related matters in 2014.

The Trustee noted the need that the investment strategy selected should, as a minimum requirement, be simple to explain to existing members of the Scheme.

The Trustee's key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. They have taken into account members' potential circumstances, in particular members' attitudes to risk and how this might vary with the term to retirement.

The investment objective is implemented using the range of investment options set out in section 2 of this SIP. The range is intentionally diverse, but not unduly so, as the Trustee is aware of the need for assets to be invested in the best and sole interest of the members and beneficiaries and in a manner which helps ensure that the members' benefit aspirations are met.

The Trustee noted that the powers of investment must be exercised in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

Since this is a defined contribution scheme, members can choose to select their own funds from a range of funds selected by the Trustee or they can invest in a default pre-determined investment strategy. Both strategies assume that members will choose to buy an annuity at their target retirement date.

The default strategy was chosen to try to maximise expected long-term investment returns, but with greater capital protection as members near retirement by targeting annuity purchase and gradually move members' retirement accounts during their last few years into assets which are expected to rise or fall in value in line with increases and reductions in annuity costs.

2.2. What is the investment strategy?

The Scheme's investment strategy has been designed to afford members the following retirement options. Both options are invested with and administered by Standard Life Investments ("Standard Life"):

2.2.1 Default strategy - member to purchase an annuity at retirement.

The default investment strategy retains investment in predominantly higher risk (more equity-oriented with expected higher long-term return) funds until 10 years from retirement. At this stage, a member's investments are switched annually from higher risk investments towards investments that better match the benefit options that are expected to be selected by members (an annuity and tax-free cash). This automatic switching from riskier funds to lower risk funds as members approach retirement is referred to as lifestyle switching. This protocol is outlined in the following table.

If as a result of investment returns a member already holds more of a particular fund than the target allocation, there is no reverse switching to correct the allocation if the strategy is to add to that fund.

Pension Fund\Years to retirement	10	9	8	7	6	5	4	3	2	1	0
Index Linked Bond	6%	9%	12%	14%	17%	20%	21%	22%	23%	24%	25%
Annuity Purchase	7%	10%	12%	15%	18%	20%	21%	22%	23%	24%	25%
Deposit and Treasury Pension (previously the Managed Cash)							5%	10%	15%	20%	25%
Vanguard FTSE UK All Share Index	40%	36%	32%	28%	24%	20%	16%	12%	8%	4%	
Corporate Bond	7%	9%	12%	15%	17%	20%	21%	22%	23%	24%	25%
Overseas Tracker	40%	36%	32%	28%	24%	20%	16%	12%	8%	4%	

Where members have previously been invested in a fund that is no longer available, the Trustee has agreed to allow the member to retain investment in that fund. As a result, some members retain investment in the Standard Life Money Market Fund (previously the Sterling Fund).

2.2.2 Self-select strategy

As an alternative to the default strategy, members may choose to invest in any of the funds used within the lifestyle strategy and/or an ethical Fund and a property Fund.

The details of these funds are outlined in the following table. All funds, if either self-selected or part of the default strategy, are charged at 1.0% per annum. However, the Scheme has negotiated a discount with Standard Life of 0.51%, to give an Annual Management Charge of 0.49% for all funds. (There are additional expenses of typically 0.01% to 0.03% giving a Total Expense Ratio of 0.50% to 0.52%).

Pension Fund	Asset Class	Description
Index Linked Bond	Bonds	The fund aims to provide long term growth from a combination of income and capital growth by investing predominantly in index-linked stock issued by the UK government. The fund is actively managed and may also invest in other securities such as bonds, corporate index-linked bonds, corporate bonds and overseas bonds.
Annuity Purchase	Bonds	The fund is designed for investors approaching retirement and considering purchasing a fixed annuity. It aims to reduce the effect of changes in long term interest rates on the value of annuity that can be

		<p>purchased. The fund invests predominantly in bonds whose prices are normally expected to rise and fall broadly in line with long term interest rates, which in turn are one of the major factors affecting the cost of purchasing an annuity. The fund does not provide any guarantee in relation to the level of annuity you will be able to purchase at retirement. It also does not protect against changes in the cost of purchasing an annuity that arise due to changes in life expectancy.</p>
<p>Deposit and Treasury Pension (previously the Managed Cash)</p>	<p>Cash</p>	<p>The primary aim of the fund is to maintain capital and provide returns before charges in line with short term money market rates by investing in deposits and short term money market instruments.</p>
<p>Vanguard FTSE UK All Share Index</p>	<p>Equity</p>	<p>The Fund seeks to track the performance of the FTSE All-Share Index.</p>
<p>Corporate Bond</p>	<p>Bonds</p>	<p>The fund aims to provide long term growth mainly from the reinvestment of income generated by investing predominantly in Sterling denominated corporate bonds. The fund is actively managed and may also invest a proportion of assets in other bonds (e.g. overseas bonds and gilts) and/or money market instruments.</p>
<p>Overseas Tracker</p>	<p>Equity</p>	<p>The fund (before charges and tax) aims to provide a return in line with that of the MSCI World ex UK Index allowing for reinvestment of dividends. In order to meet its aim, the fund invests in index tracking funds designed to track major regions of the world's stock markets, excluding the UK. The proportion held in each tracker fund will be in alignment with that region's proportion of the Index. The return of the fund will be affected by exchange rate fluctuations.</p>
<p>Ethical</p>	<p>Equity & Bonds</p>	<p>The fund aims to provide long term growth by investing in a diversified portfolio of assets (including equities and corporate bonds) that meet our strict ethical criteria. The fund's assets can be from both the UK and overseas and are predominantly equity based. The ethical criteria are agreed with the Standard Life Ethical Committee and may be amended from time to time if considered appropriate. The fund manager will exclude companies which fail to meet the ethical criteria whilst seeking to include companies whose business activities are regarded as making a positive contribution to society.</p>

Property	Property	The fund aims to provide long term growth from a combination of income and capital growth by investing predominantly in prime quality UK properties. Typically the fund will invest in a mix of freehold and leasehold properties selected from across the retail, office, industrial and other sectors. The fund may also invest in European properties and in property development opportunities. As well as direct investments, the fund may also invest indirectly in property through investment vehicles such as quoted and unquoted property companies or collective investment schemes.
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The Trustee has selected pooled investment vehicles which consist predominantly of investments that are admitted to trading on regulated markets. Any investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.

2.3. What did the Trustee consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustee considered:

- the investment objective;
- the Scheme's characteristics;
- the Annual Management Charges (AMC);
- the risks and rewards of alternative asset classes and investment strategies;
- the expectation that, over the long-term, equities are likely to produce higher returns than bonds, but at the risk of short-term volatility or liquidity constraints;
- the need for appropriate member choice to be available between different asset classes;
- the difficulty for active managers to outperform stock markets, net of fees;
- the financial strength and reputation of the investment manager; and
- the financial strength of the investment manager's custodian.

2.4. What risks were considered and how are they managed?

The Trustee identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that the investment manager will not achieve the expected rate of return;
- the risk that the real value of members' funds will fall due to increased inflation;
- the risk that members' funds experience high levels of volatility at retirement;
- the risk that annuity prices are high at retirement;
- the risk that members will invest too cautiously to achieve the return necessary to meet their benefit aspirations;
- the risk that members will invest too high a proportion of their funds in inappropriate asset classes;
- the risk that the performance of any single investment within the Scheme assets may disproportionately affect the ability of the Scheme to meet its overall investment objectives;
- the risk of misappropriation, unauthorised use or mis-delivery of members' funds;
- the ways in which risks are to be measured and managed; and
- the risk that Environmental Social and Governance ("ESG") factors, including climate change, could adversely impact the value of the Scheme's assets if this is not given due consideration and/ or misunderstood.

The Trustee recognises these different types of risk and seek to minimise them as far as possible by regular monitoring of investment performance.

3. Appointment of investment manager

3.1. How many investment managers are there?

The Trustee has appointed one investment manager, Standard Life.

3.2. What formal agreements are there with the investment manager?

The Trustee selects investment managers and funds which are appropriate to implement the investment strategy.

The Trustee has signed a policy document with the Standard Life, setting out in detail the terms on which the Scheme's assets are managed. The relationship with each investment manager is open ended and is reviewed on a periodic basis.

The Trustee keeps the appointment of all investment managers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Scheme's investment strategy.

3.3. What are the investment manager's responsibilities?

The investment manager is responsible for the day-to-day investment management of the investments and are responsible for appointing custodians if required.

The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

3.4. Custodians and administrators

The custodians provide safekeeping for all the Scheme's assets and perform the relevant administrative duties, such as the collection of interest and dividends and dealing with corporate actions.

The Scheme's investments are all in pooled investment vehicles. There is, therefore, no need for the Trustee to formally appoint a custodian as the investments comprise units held in investment vehicles rather than the underlying stocks and shares. However, the investment manager has appointed Citigroup for the safe custody of assets.

3.5. What is the Trustee's policy on investment in One Stop Stores Limited (the "Sponsoring Employer")?

The Trustee does not hold any direct investment in the Sponsoring Employer.

4. Other matters

4.1. What is the Trustee's policy on the realisation of investments?

Disinvestments are typically member-specific in that they are actioned by the Trustee, upon the administrator's (Standard Life) recommendation, as a result of a member's specific switching instructions, or as a result of a member wishing to transfer their funds to an alternative arrangement after leaving the Scheme.

4.2. Financially material considerations, non-financial matters and stewardship policies

4.2.1 Financially material considerations

The Trustee acknowledges the potential impact upon the Scheme's investments and members arising from financially material matters. The Trustee defines these as including, but not limited to ESG matters (including but not limited to climate change).

With specific regard to ESG factors, the Trustee considers how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment manager. The Trustee has provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. The Trustee also periodically consider publicly available ESG related publications pertaining to the incumbent investment managers.

The Trustee acknowledges that some of the Scheme's investments are implemented on a passive basis. This restricts the ability of the manager to take active decisions on whether to hold securities based on the investment managers consideration of ESG factors. The Trustee does however expect the incumbent managers, where relevant, to utilise their position to engage with companies on these matters.

The Trustee also considers ESG factors when determining future investment strategy decisions. To date, the Trustee has not established any restrictions on the appointed investment managers, but may consider this in future.

The Scheme offers members an ethical fund in the self-select strategy which allows members to invest in an ethical investment should they wish to do so. This fund excludes companies that do not meet pre-set ethical criteria.

4.2.2 Stewardship policy

The Trustee acknowledges the constraints that they face in terms of influencing change due to the size and nature of the Scheme's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustee, with the help of their investment advisers, considers how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing the existing investment manager. The Trustee has provided the appointed investment manager with full discretion concerning the stewardship of their investments.

4.2.3 Non-financial matters

The Trustee considers non-financial factors (where members have been forthcoming with their views) however the Trustee does not employ a formal policy in relation to this when selecting, retaining and realising investments.

4.3. How are the various parties who are involved in the investment of the Scheme's assets remunerated?

Quantum is remunerated by the Sponsoring Employer. Quantum does not receive commission from the investment manager.

The Scheme invests in pooled funds. The Trustee notes that the investment strategy and decisions of the fund managers cannot be tailored to the Trustee's policies and the managers are not remunerated directly on this basis. However, the Trustee sets the investment strategy for the Scheme and selects appropriate managers and funds to implement the strategy.

The Trustee does not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustee does, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustee considers the fees and charges associated with each investment before investing.

The investment managers are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total value of the Scheme's funds they hold under management. This structure has been chosen to align the fund managers' interests with those of the Scheme.

Details of the fees paid to the investment manager can be found in section 2.2.2 of this SIP. In addition, the fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The Trustee obtains an annual statement from the investment managers setting out all the costs of the investments of the Scheme.

4.4. Does the Trustee take any investment decisions of its own?

The Trustee is responsible for the investments of the Scheme's assets. They take some decisions themselves and delegate others.

When deciding which decisions to make themselves, and which to delegate, the Trustee takes into account whether they have the appropriate training and expertise in order to make an informed decision.

The Trustee has established the following decision making structure:

Trustee	Investment manager
Set structures and processes for carrying out its role.	Operate within the terms of the written contracts and agreements.

<p>Select direct investments (see below). Select investment advisers and investment managers.</p>	<p>Select individual investments with regard to their suitability and diversification.</p>
<p>Agree structure for implementing investment strategy.</p>	<p>Investment adviser</p>
<p>Monitor investment advisers and investment managers.</p>	<p>Advises on all aspects of the investment of the Scheme's assets, including implementation, when requested by Trustee.</p>
<p>Monitor direct investments.</p>	<p>Advises on this Statement.</p>
<p>Make ongoing decisions relevant to the operational principles of this Statement.</p>	<p>Provides required training.</p>

4.5. What is the Trustee’s policy on the realisation of investments?

The Scheme’s assets are held in pooled funds, most of which can be realised easily if the Trustee so requires, subject to the underlying manager’s dealing dates and any restrictions imposed upon trading.

4.6. Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract (e.g. units in pooled vehicle) and those where a product is purchased directly (e.g. the purchase of an insurance policy). The latter are known as direct investments.

The Trustee’s policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustee will obtain written advice from the Scheme’s investment adviser. If the Trustee believes that an investment is no longer suitable for the Scheme, it will withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice will consider suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

4.7. Conflicts of interest

The Trustee considers any potential and actual conflicts of interest (subject to reasonable levels of materiality) at the start of each Trustee's meeting and documents these in the minutes.

4.8. Capital structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

5. Review

5.1. How often are investments reviewed?

Strategy reviews of the Scheme are undertaken periodically. Any change in investment strategy may necessitate a change in investment managers, regardless of the underlying performance of the funds.

Investment return experience and the performance of individual funds is reviewed annually. Managers are reviewed against their agreed performance benchmarks and targets over both short-term and long-term time periods, to ensure they remain appropriate to implement the investment strategy for the Scheme.

5.2. How does the Trustee monitor portfolio turnover and costs?

The Trustee has delegated the selection of holdings to the appointed investment managers. The Trustee receives an annual report from the investment managers setting out portfolio turnover and the associated costs.

The Trustee has not set a specific portfolio turnover target for each investment manager and recognises that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

The Trustee will compare the annual turnover and associated costs for each fund with previous years to ensure each investment manager's process and philosophy remain consistent.

5.3. How often is this SIP reviewed?

The Trustee will review this SIP periodically and without delay after any significant change in investment policy. Any change to this SIP will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in, and practical experience of, financial matters, and to have the appropriate knowledge and experience of the management of pension scheme investments; and consulting with the Sponsoring Employer.