

# Statement of investment principles

One Stop Stores Pension Scheme

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# 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 of SIP?

The SIP is designed to meet the requirements of Section 35 of the Act. The SIP also reflects the Trustee's response to the voluntary code of investment principles set out in Paul Myners' publication

"Institutional Investment in the United Kingdom: A Review".

The Pension's Regulator's Code of Practice 13, which was published in July 2016, has also been considered by the Trustees when drafting this SIP.

The SIP takes into account the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018 for the Trustees' policy on financially material considerations, including Environmental, Social and Corporate Governance ("ESG") factors (including climate change), their stewardship policy (voting and engagement) and their approach to member views.

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 Trustees have 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.

| 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 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. |
| Deposit and Treasury Pension (previously the Managed Cash) | Cash        | 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.  |
| Vanguard FTSE UK All Share Index                           | Equity      | The Fund seeks to track the performance of the FTSE All-Share Index.  |
| Corporate Bond   | Bonds       | 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.  |
| Overseas Tracker   | Equity      | 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.  |

|          |                |  |
|----------|----------------|--|
| Ethical  | Equity & Bonds | 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. |
| 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.                          |

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 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 has signed a policy document with the investment manager, setting out in detail the terms on which the Scheme's assets are managed.

## **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 Trustees do however expect the incumbent managers, where relevant, to utilise their position to engage with companies on these matters.

The Trustees also consider ESG factors when determining future investment strategy decisions. To date, the Trustees have 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.

Details of the fees paid to the investment manager can be found in section 2.2.2 of this SIP.

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

## 4.5. What's the Trustees' 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.

## 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.

# 5. Review

The Trustee will, after significant changes in policy and at least every year, review the appropriateness of this SIP with the help of their advisers and will amend the SIP as appropriate.

Performance is reviewed annually, with assistance from the Trustee's adviser.