



# Statement of Investment Principles

This is the Statement of Investment Principles (the “Statement”) made by Wm Morrison Pension Trustee Limited, as Trustee (the “Trustee”) of the Wm Morrisons 1967 Section of the Morrisons Retirement Saver Plan (the “Section”) in accordance with the Pensions Act 1995 (as amended). The Statement is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has consulted with the sponsoring employer to the Section (Wm Morrisons Supermarkets Limited) and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Section is a defined benefit arrangement which closed to further accrual with effect from 5 July 2015.

In relation to the Myners Code of Conduct for Investment Decision Making, the extent of the Trustee’s adoption of the Code is provided in a separate document named the ‘Statement of Good Governance’.

The Trustee is supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustee expects its investment managers to comply with the Code and to produce a statement of their commitment to the Code.

## Section objective

The primary objective of the Section is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustee’s over-riding funding principles for the Section are to set the investment strategy and the employer contributions at a level which are sufficient to:

- build up assets to meet the cost of benefits already built up in respect of past service and ongoing Section management expenses; and
- ensure that there are always sufficient assets of the Section (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

For employee members, benefits are based on service completed up to 5 July 2015 and calculated on a mixture of final salary and career average earnings bases. The value of liabilities is calculated on the basis agreed by the Trustee and the sponsoring employer, on the advice of the Scheme Actuary. The Trustee also considers the Section’s funding position on a more stringent “minimum risk” gilt basis as well as a solvency basis, which is used a proxy for the cost of fully insuring the Section’s liabilities. The funding position on all bases is monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

## Investment strategy

The Trustee has translated its objectives into a suitable strategic (asset allocation) benchmark for the Section.

The Section’s liabilities are fully insured via three bulk annuity policies. The remaining assets consist of cash and the Section’s private lending mandates, which are all in the distributing phase. The Trustee’s investment strategy for the remaining assets is to maintain a portfolio that will provide sufficient liquidity to meet a portion of the insurance premium that has been deferred, as well as ongoing Section expenses. The level of liquidity is monitored regularly by the Trustee to ensure that it remains appropriate for controlling the risks identified under the ‘Risk’ section of this Statement.



The Trustee monitors the performance of Section investments relative to agreed criteria on a regular basis.

The Trustee has delegated all day-to-day investment decisions to authorised investment managers.

### **Choosing investments**

The Trustee has appointed investment managers to manage Section investments. All investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Trustee has appointed each of its investment managers to deliver a specific benchmark or performance target which, overall, will align to deliver the broader Section investment strategy.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Section. Where such tailoring is not directly achievable, the Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Section.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustee periodically reviews the fees paid to all its managers against industry standards.

The Trustee reviews the nature of Section investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The asset managers appointed are mandated to either liquidate or run off remaining portfolios. These objectives are fundamentally short term in nature.

Other than portfolios in wind-down, where the term of the appointment is dictated by the sale of remaining assets, managers are expected to remain in place for the remaining lifetime of the Section. The Trustee does not expect managers to take excess short-term risk and will regularly monitor managers' performance against the benchmarks and objectives set on a short, medium and long-term basis.

### **Kinds of investment to be held**

The Section may invest in quoted and unquoted securities of UK and overseas markets including equities, bonds, cash, property and commodities either directly or through pooled funds. The Section may also make use of contracts for differences and other derivatives (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. Finally, the Section holds insurance contracts with insurance companies which insure the future benefits of the full population of the Section's membership.

The Section also invests in a Special Purpose Vehicle (SPV), designed to facilitate contingent assets or asset-backed funding from the sponsoring employer. The SPV is directly held by the Trustee, and as such appropriate written advice on this investment is taken on a regular basis, in particular, in relation to its continued suitability and potential conflicts of interest.



The Trustee considers all these classes of investment to be suitable in the circumstances of the Section.

### **Balance between different kinds of investments**

The Section's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market each manager will aim to maintain a diversified portfolio of assets.

### **Risk**

As part of its risk management strategy the Trustee holds three bulk annuity policies in respect of all of the Section's liabilities. Given the level of funding, associated adoption of a lower risk investment strategy and bulk annuities in respect of the full Section liabilities, the Trustee focuses on the risks associated with ongoing Section expenses and the deferred premium structure. In particular, the Trustee has considered the Section's funding level sensitivity to:

- Maintaining sufficient liquidity to meet deferred premium payments as well as on-going expenses of the Section; and
- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers/ insurers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Section's liabilities.

In addition, when considering the implementation of the investment policy, the Trustee has considered the risk associated with the use of derivatives.


The Trustee expects the bulk annuity purchases in respect of assets and liabilities to immunise the Fund from market risks such as credit risk and interest rate risk, inflation risk and longevity risk associated with the liabilities covered by the bulk annuity buy-ins.

The Trustee expects the buy-in provider risk to be addressed through the supervisory regime applicable to insurance companies but monitors the monthly payment benefits from the buy-in providers to the Section and periodically, normally annually, monitors the financial covenant of the buy-in providers.

In respect of the remaining assets, the Trustee also considers the below as key asset risks facing the Section:

- Concentration – The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving objectives.
- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk - The extent to which climate change causes a material deterioration in asset values due to factors including, but not limited to, policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustee provides a practical constraint on Section investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters.



The Trustee does not expect managers to take excess short-term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

The Trustee's approach to the consideration of ESG risks and climate risk is set out in further detail below and in the Trustee's Responsible Investment Policy.

#### **Other provider risk**

- Transition risk – The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Trustee seeks professional advice.
- Custody risk – The risk of losing economic rights to Section assets, when held in custody or when being traded.
- Credit default – The possibility of default of a counterparty in meeting its obligations.
- Operational risk – The risk of loss due to fraud, cyber-attacks, poor advice, acts of negligence or lack of suitable process.
- Legislative risk – The risk that managers of the Scheme fail to comply with changes to legislation.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Section, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds).

#### **Realisation of investments**

In making the decision to invest in the Section's "illiquid" credit assets, the Trustee considered the potential liquidity impact and took written advice on this matter. The Trustee also notes that the insured annuity policies are illiquid assets of the Section.

#### **Portfolio turnover**

Given the Section's non-insured investment strategy now consists of cash and the private lending mandates in the run-off phase, the Trustee expects the turnover to be low. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects managers to report, on at least an annual basis, a summary of any transactions over the period. The Trustee will challenge its managers if portfolio turnover seems excessive.

#### **Consideration of financially material factors in investment arrangements**

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. The strategic benchmark reflects the objective to liquidate assets, rather than deriving expected risk and return profiles using economic and financial assumptions for different asset classes.

Given the inherent uncertainty associated with climate change and relatively short investment horizon of the Section, the Trustee has not sought to explicitly consider the risks of climate change in setting its strategic benchmark or implementing its strategy. However, the Trustee periodically discusses climate change with its investment adviser and investment managers to consider the potential implications for the Section's investments. The Trustee has drafted a Responsible Investment Policy to highlight their objectives and processes for dealing with ESG matters, including climate risks.

The Trustee expects its investment manager to take all financially material factors into account where relevant and the terms of the mandate permit.



### Selecting investment managers

The Trustee has discussed the extent to which ESG issues, where relevant to the investment mandate, are integrated into the investment processes of their active investment managers and are satisfied that the investment managers are following an approach which takes account of all financially material factors. The Trustee's investment beliefs on this, and other matters, are set out in a separate Responsible Investment policy.

### Consideration of non-financially material factors in investment arrangements

Non-financially material factors are the views of members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Section.

Given the objectives of the Section, the Trustee has not considered any non-financially material factors in the development and implementation of its investment strategy.

### Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

### Voting and engagement

The Trustee believes that responsible share ownership and seeking the best long-term value for investment in shares requires active exercise of voting rights. However, the Section does not currently hold listed equity assets.

The Trustee does not engage directly but believes it is sometimes appropriate for its investment managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. The Trustee will review engagement activity undertaken by its investment managers as part of its broader monitoring activity.

The Trustee separately considers any conflicts of interest arising in the management of the Section and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

### Monitoring

The Trustee aims to meet with all of its investment managers on an annual basis. The Trustee provides its managers with an agenda for discussion, including, where appropriate, ESG issues. Managers are challenged both directly by the Trustee and by its investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

### Additional Voluntary Contributions (AVCs)

Prior to the closure of the Section to future accrual the Trustee gave members the opportunity to pay AVCs. A range of equity and bond funds are available for investment at members' discretion.

On behalf of Wm Morrison Pension Trustee Limited as Trustee of the Morrisons 1967 Section of the Morrisons Retirement Saver Plan