Wilkinson Group Retirement Benefits Scheme

Statement of Investment Principles

September 2020

Introduction

This document is the Statement of Investment Principles (the 'SIP') made by the Trustees of the Wilkinson Group Retirement Benefits Scheme (the 'Scheme') in accordance with the Pensions Acts 1995 and 2004, and the Occupational Pension Schemes (Investment) Regulations 2005 (collectively referred to as the 'Pensions Acts'). In addition, this Statement is designed to fulfil the spirit of the pensions industry Code of Best Practice, published in 2001. It sets out the principles governing investment decisions made by the Trustees in relation to the Scheme.

This Statement should be read in conjunction with the related document entitled 'Investment Arrangements' which provides further detail on how the investment decisions are implemented. For the avoidance of doubt the Investment Arrangements document does not legally form part of this SIP.

The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustees took advice from a suitably qualified organisation and consulted Wilko Retail Limited (the 'Sponsoring Employer'). The principles set out in this Statement are also consistent with the Trustees' Statement of Funding Principles.

The following further pieces of information are covered in the Investment Arrangements document:

- The types of investments and financial instruments that are used and any investment restrictions that have been agreed by the Trustees for the Scheme
- The current advisers and investment managers

Governance arrangements

The Trustees have ultimate responsibility for the management of the investment arrangements of the Scheme's assets. In discharging these responsibilities, the Trustees have established clear Investment Objectives setting out what the Scheme is aiming to achieve. The Investment Objectives relate to the overall funding position of the Scheme and are explained in more detail in the next section of this Statement. The funding position is an assessment of the amount of assets which have been put aside to meet the liabilities of the Scheme.

The Trustees have considered a number of different governance models that could be adopted in order to best achieve its Investment Objectives and have decided to appoint an investment manager to manage the Scheme assets on a discretionary basis and to provide advisory services to the Trustees (the "Fiduciary Manager").

The balance between the types of investments will be determined from time to time at the discretion of the Fiduciary Manager with the objective of meeting the Scheme's investment objectives, as determined by the Trustees. The Fiduciary Manager's discretion is subject to guidelines set by the Trustees as detailed in the Investment Arrangements Document.

Under this governance model the Trustees focus on setting the high level Investment Objectives and on deciding what types of investments are acceptable for the Scheme. They then delegate day-to-day responsibility for all investment decisions to the Fiduciary Manager.

Investment Objectives

The Trustees have the following Investment Objective:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Sponsoring Employer, the cost of current and future benefits which the Scheme provides

The Return Objectives and Risk Statements have been set by the Trustees on the basis of an assessment of the Scheme's current position and consideration of future uncertain events. This involved looking at the Trustees' overall objectives, the Statement of Funding Principles and the Scheme's financial position (including the strength of the Sponsoring Employer's covenant). In addition to qualitative assessments the Trustees also used asset-liability modelling techniques.

The Investment Objectives are quantifiable statements comprising a return objective and a risk statement.

- The **Return Objective** states the level of return on the assets relative to the liabilities that the Trustee is targeting for the Scheme. The Trustees aim to achieve a return on the Scheme's assets of 2.7% p.a. in excess of the return on the Liability Benchmark. As at 1 February 2019, the return target of the Scheme was reduced from 2.9% in excess of the return on the Liability Benchmark to 2.7% in excess of the return on the Liability Benchmark as a result of an increase in the liability hedge ratio from 75% to 85% of assets. The decision to increase the liability hedge ratio was taken by the Trustees in order to reduce the exposure of the liabilities of the Scheme to movements in interest rates and inflation. The Liability Benchmark is the portfolio of gilts that best matches the liability profile of the Scheme.
- The **Risk Statement** defines the level of active risk within which the Trustees expect the Fiduciary Manager to manage the Scheme's investments. Active risk is the risk that the Scheme's investments do not perform in line with the liabilities. The Trustees expect that the tracking error relative to the Liability Benchmark Return shall not exceed 8%. If the tracking error relative to the Liability Benchmark Return exceeds 14%, the Fiduciary Manager shall notify the Trustees in writing.

Investment strategy

The Trustees have received advice to determine an appropriate investment strategy for the Scheme. The Trustees have a desire to diversify risk exposures and to manage its investments effectively.

The investment strategy makes use of two key types of investments:

- a range of instruments that provide a broad match to changes in liability values; and

- a diversified portfolio of return-seeking assets.

The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

The Trustees will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary, the appropriateness of its investment strategy.

The expected return of the investments will be monitored regularly and will be directly related to the Scheme's investment objectives.

The Trustees' policy is that there will be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in foreseeable circumstances so that, where possible, the realisation of assets will not disrupt the Scheme's overall investments.

Investment managers

The Trustees have delegated investment manager selection, de-selection and monitoring of the investment managers to the Fiduciary Manager. For the avoidance of doubt, the Fiduciary Manager is also an investment manager of the Scheme.

The selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.

The Trustees are not involved in the investment managers day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long term objectives.

The Trustees have, through their Fiduciary Manager, delegated responsibility for the selection, retention and realisation of investments to the investment managers. The Trustees' policy is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the investment managers.

Expected return on investments

The Trustees’ policy in relation to expected return on investments is to invest the assets which it believes will, over an appropriate time horizon and having a regard to the need to manage risk appropriately, achieve the Return Objective. When setting the investment guidelines, the Trustees have discussed the expected return and associated risk for each investment type with the Fiduciary Manager.

The Trustees monitor the return on the different investment types on a regular basis using reporting provided by the Fiduciary Manager. In the case of severe under performance the Trustees expect the Fiduciary Manager to review the investments in light of the prevailing economic conditions.

Responsible investment & corporate governance

Financially material considerations over the appropriate time horizon of the investments

The Trustees have a long term time horizon for their portfolio and therefore acknowledge the importance of being a responsible investor. The Trustees consider responsible investment to be the integration of environmental, social and governance factors into investment decisions in respect of the portfolio where financial risk and / or return is or could be materially affected ("Responsible Investment").

The Trustees have delegated responsibility to take account of environmental, social and governance factors (ESG) in investment decision making to the Fiduciary Manager. Where the Scheme assets are held in pooled arrangements, the Trustees expect the Fiduciary Manager to take into account ESG (including but not limited to climate change), consistent with their approach to Responsible Investment. The Fiduciary Manager is responsible for monitoring how external investment managers take into account ESG within their investment process. Monitoring by the Trustees of the Fiduciary Manager is undertaken on a regular basis.

The Trustee will monitor financially material considerations though the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- Use ESG ratings information provided by its Fiduciary Manager, to assess how the Scheme's investment managers take account of ESG issues; and
- Request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its Fiduciary Manager.

The exercise of rights (including voting rights) attaching to the investments

In relation to corporate governance and activism (including the way in which any rights attaching to investments, such as voting rights, are exercised) the Trustees support the policies set out in the Myners' Report and Statement of Principles drawn up by the Institutional Shareholders' Committee and expect their investment managers to comply with these principles where possible or explain why they have been unable to comply.

The extent to which non-financial matters are taken into account in the selection, retention and realisation of investments

The Trustees do not take the views of individual members and beneficiaries, including (but not limited to) their views in relation to governance, social and environmental impact, into account when making investment decisions. The Scheme's assets are largely held in pooled arrangements therefore, it is not possible to reflect individual member views. However, the Trustees believe that by being a responsible investor, they are managing investment risk with the aim of enhancing long term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme.

Undertaking engagement activities in respect of the investments

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. However, the Trustee expects the investment managers to engage with companies to take account of ESG factors in the exercise of such rights, where applicable.

The Trustees also expect the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.

The Fiduciary Manager is responsible for engaging with investment managers regarding their voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact.

The Fiduciary Manager encourages the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council where appropriate for the investments they manage.

The Trustees will discuss the implementation of the ESG policy at each quarterly meeting. To the extent Trustees are not satisfied that their investments are aligned with their policy, they will seek further information and / or remedial action from the Fiduciary Manager, as appropriate.

Arrangements with the Fiduciary Manager

The Trustees delegate various activities in relation to the Scheme's investments to the Fiduciary Manager as set out in this Statement. The Fiduciary Manager is responsible, in particular, for ensuring each underlying investment manager is aligned with the Trustees' policies.

The Trustees keep the Fiduciary Manager's performance under review, focusing on longer-term outcomes. The Trustees receive regular reports from the Fiduciary Manager, including on portfolio turnover costs incurred by the underlying investment managers. The Trustees' review process includes specific consideration of how the Fiduciary Manager has implemented the responsible investing policies and engagement activities included in this Statement.

Although the Trustees' arrangement with the Fiduciary Manager is expected by the Trustees to be a long-term partnership, the Fiduciary Manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team or where the Fiduciary Manager fails to ensure alignment between underlying investment managers and the Trustees' policies.

The Fiduciary Manager is paid a fixed and an ad valorem fee in line with normal market practice, for a given scope of services which includes consideration of long-term factors, responsible investment and engagement. The Trustees review the costs incurred in managing the Scheme's assets annually.

Arrangements with all Investment Managers

The Trustees believe that an understanding of, and engagement with, Investment Managers' arrangements (including the Fiduciary Manager) is required to ensure they are aligned with the Trustees' policy, including their policy on Responsible Investment. In accordance with latest regulation, it is the Trustees' policy to ensure that the following are understood and monitored by the Fiduciary Manager:

- How investment manager arrangements incentivise investment managers to align their strategy and decisions with the Trustees' policies

- How investment manager arrangements incentivise investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term
- How the method (and time horizon) of the evaluation of investment managers' performance and their remuneration are in line with the Trustees' policies
- Portfolio turnover costs incurred by the investment managers, in the context of the investment manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold)
- Duration of the arrangement with the investment manager

The responsibility for monitoring these aspects day to day has been delegated to the Fiduciary Manager. They are responsible for ensuring each underlying investment manager is aligned with the Trustees' policies at the time of appointment or explaining why this is not the case. They are also required to report back to the Trustees on any areas of potential divergence between the Trustees' policies and investment manager practice on an ongoing basis, including their own.

Stewardship policies and voting records are reviewed (and discussed with investment managers) at least annually by the Fiduciary Manager, who will collate the qualitative and quantitative information required to allow the Trustees to review all of the above aspects in sufficient detail each year. The Trustees will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

Realisation of investments

As part of the ongoing management of the Scheme, it is necessary for the Trustees to realise investments from time to time. It is the Trustees' policy to ensure that the Fiduciary Manager considers a number of core factors when considering the realisation of investments. These include:

- The potential future returns and risks of the investment
- The liquidity of the investment
- The ongoing appropriateness of the investment

The balance between the benefit payments and future contributions is considered when reviewing the need to realise investments. These considerations will be kept under review.

In light of these considerations, specific liquidity provisions have been included in the guidelines for the Fiduciary Manager. The Trustees have delegated decisions relating to the realisation of investments to the Fiduciary Manager within the agreed guidelines.

All realisations made by the Fiduciary Manager will be done in accordance with the terms and conditions contained in the agreement between the Fiduciary Manager and the Trustees. It is the Trustees' policy to review the approach taken by the Fiduciary Manager to realising investments from time to time.

Use of derivatives

As part of the overall consideration of Scheme's investments, the Trustees have agreed to use derivatives such as but not limited to forwards, futures, swaps and options for risk management and for the efficient implementation of the investment strategy. The Trustees have delegated responsibility for the design and implementation of derivatives strategies to the Fiduciary Manager. The design and execution of derivative strategies will be subject to the guidelines contained in the agreement between the Fiduciary Manager and the Trustees. The Fiduciary Manager will use derivatives within the portfolios when it deems appropriate to do so in order to support the achievement of the Trustees' Investment Objectives within the agreed guidelines.

Other matters

Whilst the Scheme was open to new members, the Scheme provided a facility for members to elect to pay AVCs to enhance their benefits at retirement and many of the members who previously paid AVCs retain investments in the Scheme in respect of those contributions. The AVC arrangements provide benefits with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustees are aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members.

Key Risks affecting the Scheme

The Trustees recognises there are a number of risks involved in the investment of the Scheme's assets, and, where applicable, monitors these risks in conjunction with the Fiduciary Manager. These are set out in Appendix A.

Compliance with the Pensions Acts

The Pensions Acts distinguish between investments which are purchased directly by the Trustees ('direct investments') and investments where management is delegated to an investment manager under a written contract. An example of the former would be the purchase of an insurance policy by the Trustees (e.g. additional voluntary contributions policies), where there is no investment management agreement.

When deciding whether to make any new direct investments, the Trustees will obtain written advice from the Fiduciary Manager. They will also consider whether future decisions about those investments should be delegated to an investment manager.

The Trustees' policy is to review any direct investments held by the Scheme and to obtain written advice about them at regular intervals.

This written advice will cover the issues set out in the Pensions Acts and the principles contained in this Statement.

It is the Trustees' policy to regularly monitor and review the practices of the Fiduciary Manager (and, if applicable, any other investment manager appointed by the Trustees under the Pensions Acts) to ensure that the Trustees' powers of investment are being exercised in accordance with the Pensions Acts, and with a view to giving effect to the principles in this Statement as far as practicable. If the Trustees become aware that any manager is not carrying out its duties in accordance with the Pensions Acts or this Statement, it will promptly review this situation with the Fiduciary Manager.

Advice received

The Trustees have obtained written advice on the content of this statement from the Fiduciary Manager. It will also take written advice on any future major changes to this Statement.

The Trustees are satisfied that the Fiduciary Manager has the knowledge and experience required by the Pensions Acts to perform this role.

The Trustees have consulted the appropriate Sponsoring Employer on the content of this Statement and will consult with them on future changes.

Compliance and review

The Trustees will monitor compliance with this Statement regularly and in any event will review this Statement at least every three years and also following any significant change in investment policy.

Agreed on behalf of Wilkinson Trustees Limited:

Date: 17th September 2020

APPENDIX A – Investment responsibilities of different parties

The division of investment responsibilities for the Scheme is set out below. This list is not meant to be exhaustive.

Trustees

The Trustees have ultimate responsibility for decision-making on investment matters. The Trustees' investment responsibilities include:

- Deciding on an appropriate governance structure for the management of the Scheme including the role of advisers and other third parties
- Setting appropriate investment objectives, following advice from the Fiduciary Manager and Scheme Actuary
- Agreeing the range of investment types to be used to achieve the investment objectives, taking account of the need to manage risks
- Agreeing the policies for governing investment manager arrangements
- Monitoring the appropriateness of the Fiduciary Manager
- Reviewing the content of this Statement at least every three years and following any significant change in investment strategy
- Modifying this statement, if deemed appropriate, in consultation with the Sponsoring Employer and with written advice from the Fiduciary Manager
- Monitoring compliance with this Statement on an ongoing basis
- Identifying the Trustees' training needs

Fiduciary Manager

The Fiduciary Manager's role includes providing investment advice to the Trustees and investment management of assets. A summary of the duties that fall into each category is shown below:

Fiduciary Manager – Investment advice:

- Advice on setting the Investment Objective
- Risk modelling (including asset-liability analysis)
- Asset class, investment manager and risk reporting
- Advice and monitoring of any direct investments
- Trustee investment training and education
- Advice relating to investment governance and compliance
- Advice on this statement

- Advice relating to potential conflicts of interest, including their own

Fiduciary Manager – investment management:

- Designing and implementing investment solutions appropriate to the investment objective for the Scheme, which has been set out by the Trustees
- Appointing and removing investment managers
- Investment manager mandate definition and negotiation
- Designing and executing derivative strategies for and on behalf of the Trustees
- Portfolio monitoring, including checking consistency of investment manager arrangements with the Trustees' policies
- Appointing transition managers for and on behalf of the Trustees
- Advice relating to potential conflicts of interest, including their own
- Ongoing management of the assets delegated to them within the terms of their agreement with the Trustees
- Complying with this Statement

Scheme Actuary

The key aspects of the Scheme Actuary's role that have a bearing on investment decisions include:

- Liaising with the Fiduciary Manager on the suitability of the Scheme's Investment Objective given the liabilities of the Scheme
- Ensuring consistency between the Statement of Funding Principles and the Trustees' Investment Objectives and investment strategy
- Assessing the funding ratio of the Scheme by performing valuations and advising on the appropriate contribution levels
- Providing data to enable decisions about hedging liability risks to be taken and implemented
- Estimating the cashflows of the Scheme, to be used in the calculation of the value of liabilities on at least a triennial basis, or more frequently as required
- Advice relating to potential conflicts of interest, including their own

Investment managers

The investment managers' responsibilities include:

- Managing the assets delegated to them within the terms of their agreement
- Providing regular reports on their performance, including any agreed benchmark and performance targets

- Providing reports at least annually on portfolio turnover and costs, including their remuneration
- Instructing their custodian on corporate governance and voting issues, including issues relating to Responsible Investment
- Where relevant, providing information at least annually on how they are incentivised to consider both financial and non-financial risks over the medium to long-term, including but not limited to detailing their engagement activities with investee companies
- Ensure that they are complying with the requirements applicable to them in this Statement. In particular, when investing the assets delegated to them they must be invested in the best interests of members and beneficiaries. Their powers of investments must be exercised so as to ensure the security, quality, liquidity and profitability of the portfolio as a whole

Providers of direct investments

Investments held directly by the Scheme are held in the form of units in pooled funds, insurance policies or other contractual arrangements. The responsibilities of the providers are set out in the legal documentation for each investment. There is then usually an agreement between the provider and an organisation which manages the assets underlying the direct investment on a day-to-day basis. This agreement sets out the responsibilities of this organisation to the provider.

APPENDIX B – Further information on the additional risk factors

The table below provides some further detail on the major individual risk factors affecting the Scheme. This includes a summary of what each of the risks are as well as the Trustees' policy on how each risk is measured and managed.

For all of these risks, the Trustees receive updates and advice from the Fiduciary Manager.

Risk factor	What is the risk?	How is this measured?	How is this managed?
Interest rate risk	The interest rate used to value the Scheme's liabilities falls. This would result in an increase in the value of the liabilities.	The Trustees monitor the mismatch between the exposure of the assets and the exposure of the liabilities of the Scheme to interest rates as part of the regular monitoring process.	The Trustees delegate the management of this risk to the Fiduciary Manager who manages this risk by investing in certain assets, and uses hedging techniques for and on behalf of the Trustees, which help to mitigate this risk.
Inflation risk	Inflation is higher than expected, causing the value of a members' pensions to be greater than expected. This would lead to the value of the Scheme's liabilities being greater than expected.	The Trustees regularly monitor the portfolios to assess the mismatch between the exposure of the assets and the exposure of the liabilities of the Scheme to inflation.	The Trustees delegate the management of this risk to the Fiduciary Manager who manages this risk by investing in certain assets, and uses hedging techniques for and on behalf of the Trustees, which help to mitigate this risk.
Demographic risk	The value of the Scheme's liabilities increases due to members living longer than expected.	The Trustees receive regular updates on changes in demographics from the Scheme Actuary.	The Trustees acknowledge that readily-tradable instruments to hedge this type of risk do not currently exist and therefore this risk cannot be fully mitigated. The Trustees make an allowance for this risk in setting the respective actuarial assumptions.
Economic risk	That economic and financial conditions cause the return on investments to be worse than expected. In this situation it may be hard to find investments that will achieve the investment return objective.	The Trustees regularly monitor the portfolios in the context of the changing economic climate.	The Fiduciary Manager invests the Scheme's assets across a range of different types of investments to help reduce the impact of this risk.
Sponsor risk	The Sponsoring Employer and/or sponsoring companies do not/cannot make sufficient contributions to support the payment of the Scheme's benefits. This may lead to a greater reliance on investment returns to pay for the benefits.	The Trustees consider the ability and willingness of the Sponsoring Employer and where applicable, sponsoring companies to support the continuation of the Scheme and make good any current / future deficit. The Trustees also periodically review a number of key factors, including sponsor covenant, size of deficit, etc., relative to a number of metrics.	Sponsoring Employer risk has been taken into account when agreeing suitable Investment Objectives. If there is a significant change in the sponsor's covenant, the Trustees will review the Investment Objectives.

Risk factor	What is the risk?	How is this measured?	How is this managed?
Concentration risk	The failure to spread investment risk. This may be caused by investing in too narrow a range of investments, or investments that are affected by markets in a similar way.	The Trustees monitor the level of cashflow required on a regular basis.	The Trustees have set guidelines to limit the total value of assets invested in illiquid assets.
Investment manager risk	The investment managers fail to beat their investment benchmark.	The Fiduciary Manager monitors the actual deviation of returns relative to the manager's benchmark for and on behalf of the Trustees and regularly reports it to them.	The Fiduciary Manager reviews the investment managers as part of their assessment process.
Risk in relation to the Fiduciary Manager	The Fiduciary Manager fails to meet its objectives.	The Trustees monitor the performance of the portfolios against the Scheme's Investment Objectives.	The Trustees took advice on the selection of a Fiduciary Manager and subsequently carried out an extensive selection process ahead of appointing the Fiduciary Manager. The Trustees will continue to ensure that the Fiduciary Manager is suitably qualified and experienced to perform its role.
Operational risk	The risk of loss as a result of fraud, poor advice, acts of negligence or lack of suitable processes.	The Fiduciary Manager undertakes due diligence on investment managers and the custodian on behalf of the Trustees.	The Trustees discuss the Fiduciary Manager's process as part of their overall review process. The Trustees ensure that all advisers and third party service providers are suitably qualified and experienced.
Political risk	The risk of loss resulting from political intervention (e.g. changes in policy) or through political instability.	The Fiduciary Manager monitors the concentration of investments by countries/regions for and on behalf of the Trustees.	The Trustees have set guidelines within which the Fiduciary Manager can invest the Scheme's assets. These ensure assets are spread across a range of different types of investments.
ESG (including climate change) risk	The potential for non-financial factors to adversely impact the value of the assets or overall funding position	The Fiduciary Manager measures ESG risk based on the materiality of the potential impact on each investment and distinguishes between high and low focus positions.	The Fiduciary Manager monitors the portfolio regularly to ensure ESG risks are being appropriately considered in ongoing investment decisions. The Trustee reviews ESG risks on a regular basis.