

# **MOTHERCARE STAFF PENSION SCHEME**

## **STATEMENT OF INVESTMENT PRINCIPLES – JUNE 2023**

### **1. Background**

The Pensions Act 1995 (“the Act”) and subsequent legislation requires that the trustees of a pension scheme must ensure that a written statement of principles covering investment decisions about the scheme is prepared and maintained.

The Trustees of the Mothercare Staff Pension Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (the “Statement”). As required under the Act, the Trustees have taken investment advice from a suitably qualified firm in Mercer Limited (“Mercer”). The Trustees, in preparing this Statement, have also consulted the principal employer Mothercare plc (the “Company”).

This Statement provides an overview of the Scheme’s investment arrangements. The Trustees will review the Statement at least every three years and without delay after any significant change in investment policy.

The Trustees’ investment responsibilities are governed by the Scheme’s Trust Deed and Rules, a copy of which is available for inspection on request.

### **2. Investment Policy**

The Trustees last reviewed the Scheme’s investment strategy in early 2023, and the strategic benchmark set out within this document reflects this. However, the Trustees regularly monitor and discuss investment strategy.

#### **2.1 Investment Objectives**

The Trustees are aiming to restore and then maintain a funding level of or in excess of 100% on a technical provisions basis through the adoption of a prudent funding and investment strategy. The aim will be to take on investment risk in a controlled way, and target a return consistent with the assumptions made in determining the Scheme’s technical provisions funding basis and recovery plan.

The Trustees believe that, over the long term, excess return will be generated through investing in equities and other return enhancing asset classes as well as through the use of active management where appropriate. The Trustees recognise that in adopting this approach, the Scheme is exposed to equity market risk and other risks. Therefore, in the short term, the funding position may be volatile. The Trustees have taken steps to reduce the interest rate and inflation risk in the Scheme through the introduction of a liability driven investment mandate. It has also been agreed that risk will be reduced further as the funding level improves. The Trustees will monitor the performance of the Scheme’s assets relative to their stated objectives and the target return as part of its quarterly monitoring programme.

## 2.2 Investment Risk

In setting the return oriented objectives described in the previous section, the Trustees have not lost sight of risk. In particular the Trustees are well aware that there exists solvency risk - the risk that economic circumstances force the winding-up of the Scheme at a time when asset values are depressed and the Company is unable to make good the deficiency.

While it is impossible to eliminate this risk without making a significant sacrifice in expected excess return terms, the Trustees intend to mitigate the risk as far as possible by:

- Maintaining a well-diversified portfolio of assets, including the use of “alternatives”;
- Diversifying by investment manager;
- Using active management where appropriate;
- Using a liability driven investment manager to hedge a portion of the Scheme’s interest rate and inflation exposure;
- Monitoring the financial strength of the Company and its perceived commitment to the Scheme; and
- Reducing risk relative to the solvency funding position should the financial strength of the Company and/or its commitment to the Scheme deteriorate.

The following risks are also recognised by the Trustees as financially material to the Scheme over its anticipated lifetime, and have been considered as part of any investment strategy work. The Trustees appreciate that there are specific risks in addition to these but consider these to be secondary determinants of the investment strategy.

- The risk of deterioration in the Scheme’s funding level;
- The risk that the day-to-day management of the assets will not achieve the target return;
- The risk of variation in the Scheme surplus or deficit resulting from market volatility and changes in interest rate or inflation expectations;
- The risk of volatility in the Company contribution rate and the implications of this to the Company and the security of members’ benefits; and
- The risk of having insufficient collateral to support the Scheme’s liability hedging arrangements and the implications of this on the amount of interest rate and inflation risk within the Scheme.

The Trustees regularly consider these risks as part of their funding and investment discussions.

## 2.3 Investment Policy

The investment policy falls into two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustees, and (2) the day-to-day management of the assets, which has been delegated to professional investment managers.

### *Strategic Management*

The current benchmark strategy is set out below:

<b>Asset Class</b>	<b>Allocation (%)</b>
<b>Absolute Return</b>	<b>29.0</b>
Diversified Growth	29.0
<b>Bond / Bond Substitutes</b>	<b>71.0</b>
Multi-Asset Credit	20.0
Secured Finance	10.0
Liability Driven Investments ("LDI")	41.0
<b>Total</b>	<b>100.0</b>

The considerations leading to the adoption of these arrangements were as follows:

- Increase efficiency of assets through Liability Driven Investments (LDI) to reduce interest rate and inflation risk through greater liability hedging. The aim is to hedge 65% of the interest rate and inflation sensitivities associated with the Scheme's liabilities, calculated on the Self-Sufficiency (gilts + 0.4% p.a.) basis. Ensuring sufficient assets are invested in LDI, and sufficient liquid collateral is available, to maintain the target interest rate and inflation hedge ratios following the gilt market volatility in 2022.
- Keep cashflow and liability matching assets, such as multi-asset credit, secured finance and LDI.
- Earn an illiquidity premium through semi-liquid credit.
- The long-term rate of return required to be consistent with the Trustees' overall investment and funding objectives.
- The Scheme specific benchmark provides a broad diversification of the Scheme's investments across a wide range of asset classes.
- The Company has been consulted over the level of investment risk being taken by the Scheme and has confirmed its agreement.
- The Trustees expect that over the long-term the assets will produce a return sufficient to meet the Scheme Actuary's investment return assumptions used in the actuarial valuation (forming part of the technical provisions basis). The Trustees recognise that there may be extended periods where this may not be the case and are prepared (as is the Company) to accept this risk.

- The Trustees will consider periodically whether it is appropriate to add additional asset classes to the above investment strategy.
- The investment strategy will be reviewed periodically, with a view to amending it to reflect any changes in the liability profile of the Scheme and/or the funding objectives of the Trustees if necessary.
- The Trustees accept that in the short to medium-term, the investment strategy may deviate from the ultimate long-term strategy, when taking into account current market conditions. This might reflect the Trustees' desire to avoid making significant sales or purchases at an inappropriate time or views on evolving market conditions and the risks involved versus the Trustees' short-term risk tolerance.

#### *Day-to-day Management*

Day-to-day management of the assets in accordance with the scheme specific benchmark is delegated to professional investment managers who are all regulated by the Financial Conduct Authority (the "FCA").

The Trustees have given the appointed investment managers full discretion to buy and sell investments on behalf of the Scheme, subject to the constraints of their mandates. They have been selected for their expertise in different specialisations and each manages investments for the Scheme to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.

### **3. Investment Manager Appointment, Engagement and Monitoring**

#### **3.1 Aligning Manager Appointments with Investment Strategy**

The investment managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustees utilise Mercer's forward-looking manager research ratings in decisions around the selection, retention and realisation of manager appointments. These ratings are based on Mercer's assessment of the manager's idea generation, portfolio construction, implementation and business management.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure that it remains appropriate and consistent with the wider Trustees' investment objectives.

Some mandates are actively managed and the managers are incentivised through performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustees will review the appropriateness of using actively managed funds as part of the wider monitoring of the Scheme's managers.

All of the Scheme's investments are made through pooled investment vehicles, and as such the Trustees accept that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

With respect to the Liability Driven Investment portfolio with Insight, whilst the underlying investments are in pooled funds, the manager has been appointed to manage these pooled investments in line with a Scheme-specific liability hedge ratio target, which is based on the underlying liability profile of the Scheme. Restrictions are set out in the portfolio guidelines in order to manage portfolio-specific risks (for example, restrictions on permitted pooled fund investments).

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then they will consider replacing the manager.

An investment manager's appointment may also be terminated if the Trustees' strategic investment objectives change.

### **3.2 Evaluating Investment Manager Performance**

The Trustees receive investment manager performance reports from the managers and Mercer on a quarterly basis, which present performance information over various time periods. The Trustees review absolute performance and in many cases relative performance, either against a suitable index used as a benchmark (where relevant) and/or against the manager's stated performance target (over the relevant time period). The Trustees may also evaluate a manager's performance using risk metrics. The Trustees' focus is primarily on long term performance but short term performance is also reviewed. As noted above, the Trustees may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager;
- There is a change in the underlying objectives of the investment manager;
- There is a significant change to Mercer's rating of the manager.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may initially ask the manager to review their fees instead of terminating the appointment.

### **3.3 Portfolio Turnover Costs**

The Trustees do not currently actively monitor the portfolio turnover costs of the Scheme's assets. Investment manager performance is generally reported net of all fees and costs, including transaction costs, and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustees receive some MiFID II reporting from their investment managers but do not analyse the information. The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask managers to report on portfolio turnover costs explicitly. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same fund, or where relevant, relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

The Trustees do not currently actively monitor the portfolio turnover costs of the assets for members' Additional Voluntary Contributions.

### 3.4 **Manager Turnover**

The Trustees are a long term investor and are not looking to change the investment arrangements on a frequent basis.

For open-ended funds, the Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the Trustees are no longer comfortable that the manager can deliver the mandate.

## 4. **Buying and Selling Investments**

The Trustees have delegated the responsibility for buying and selling investments to each of the Investment Managers. Investment with the Investment Managers is to be made primarily in units in collective investment schemes. As already mentioned, the day to day activities which the Investment Managers carry out are governed by the signed arrangements between the parties, which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

## 5. **Realisation of Investments**

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise and this is considered whenever any investment change is reviewed for its appropriateness. The Trustees hold a mixture of assets from those that are redeemable daily to the alternative mandates where redemption periods are longer.

Additionally a working cash balance is held for imminent payment of benefits and expenses. Under normal circumstances it is not the Trustees' intention to hold a significant cash balance.

## 6. **Additional Voluntary Contribution Assets**

Assets in respect of members' Additional Voluntary Contributions ("AVC") are invested in a range of investment options at Prudential. With the assistance of the Scheme's consultants, the AVC arrangements will be reviewed periodically to ensure that the investment profile of the funds available remains consistent with the objectives of the Trustees and the needs of the members.

## 7. **Effective Decision Making**

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to evaluate critically any advice they take.

## 8. **Socially Responsible Investment and Corporate Governance**

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given the appointed investment manager full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustees review the managers' ESG and stewardship policies from time to time, including discussing these policies and how they have been implemented as part of the managers' attendance at meetings.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring the existing investment manager. The Trustees will consider the ESG ratings provided by Mercer and how each investment manager embeds ESG factors into its investment process. A change in ESG rating (or lack of ESG rating) does not mean that the fund will be removed or replaced automatically. Managers will also be expected to report on their own ESG policies as and when requested by the Trustees. The Trustees will also consider ESG integration, climate change and stewardship when implementing future investment strategy decisions.

The Trustees recognise that a significant proportion of the Scheme's current investment arrangements are implemented on a passive basis, which limits the investment managers ability to take active decisions on whether to hold securities based on the investment managers considerations of ESG factors, including climate change considerations. The Scheme also has allocations to credit assets where, whilst ESG issues are still relevant to risk control, there is less opportunity to influence investee company behaviour compared to equity holdings, although where relevant managers are encouraged to use their position as lenders of capital to engage with companies.

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

Given the size and diversity of the scheme's membership, the Trustees do not consider members' views on "non-financial matters".

## 9. **Compliance with this Statement**

The Trustees, the Investment Managers and Mercer all have duties to perform to ensure compliance with this Statement so far as reasonably practicable. These duties are:

**The Trustees** will review this Statement from time to time and at least every three years on the advice of Mercer. The Trustees will also review the Statement without delay following any significant changes in investment policy and will record compliance with it regularly. If the Statement is revised, the Trustees will provide the investment managers with the revised Statement.

The **Investment Managers**, will prepare regular reports to the Trustees including:

- a valuation of all investments held for the Scheme including a record of all transactions undertaken,
- performance of the Scheme's assets against their respective benchmarks; and
- a review of actions undertaken on behalf of the Scheme regarding areas such as corporate governance, socially responsible investment and disclosure of transaction costs, as recommended by the Myners review.

**Mercer** will provide appropriate advice to allow the Trustees to review and update this Statement as necessary.

**For and on behalf of the Mothercare Staff Pension Scheme**

Signature: Peter Andrew Evans

Date: 8 June 2023