

# **MOTHERCARE EXECUTIVE PENSION SCHEME**

## **STATEMENT OF INVESTMENT PRINCIPLES – JANUARY 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 Directors of MCPS Corporate Trustee Limited, the Trustee of the Mothercare Executive Pension Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (the “Statement”). As required under the Act, the Trustee has taken investment advice from a suitably qualified firm in Mercer Limited (“Mercer”). The Trustee, in preparing this Statement, has also consulted the principal employer Mothercare plc (the “Company”).

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

The Trustee’s 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 Trustee last reviewed the Scheme’s investment strategy in late 2022 following volatility in gilt markets in September and October. The strategic benchmark set out within this document reflects decisions taken in response to the market volatility. However, the Trustee regularly monitors and discusses investment strategy.

#### **2.1 Investment Objectives**

The Trustee’s primary objective is 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 Trustee’s secondary objective is to monitor the buy-out market to evaluate whether it is feasible to undertake a transaction to reduce further the risks to Scheme members.

The Trustee believes that, over the long term, excess return will be generated through investing in asset classes such as credit and secured finance, as well as through the use of active management where appropriate. The Trustee recognises that in adopting this approach, the Scheme is exposed to interest rate, inflation and other risks. Therefore, in the short term, the funding position may be volatile. The Trustee has 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 Trustee will monitor the performance of the Scheme’s assets relative to its 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 Trustee has not lost sight of risk. In particular the Trustee is 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 Trustee intends to mitigate the risk as far as possible by:

- Maintaining a well-diversified portfolio of assets;
- 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 Trustee as financially material to the Scheme over its anticipated lifetime, and have been considered as part of any investment strategy work. The Trustee appreciates 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 Trustee regularly considers these risks as part of its 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 Trustee, 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>Bond / Bond Substitutes</b>	<b>100.0</b>
Multi-Asset Credit	25.5
Secured Finance	25.5
Liability Driven Investments (“LDI”)	49.0
<b>Total</b>	<b>100.0</b>

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

- Increasing efficiency of assets through Liability Driven Investments (LDI) to reduce interest rate and inflation risk through greater liability hedging.
- Ensuring sufficient assets are invested in LDI to maintain target interest rate and inflation hedge ratios following the gilt market volatility in 2022.
- Earn an illiquidity premium through semi-liquid credit.
- The long-term rate of return required to be consistent with the Trustee’s overall investment and funding objectives.
- The Scheme specific benchmark provides diversification of the Scheme’s investments across a range of bond and bond-like asset classes.
- The Company has been consulted over the level of investment risk being taken by the Scheme.
- The Trustee expects 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 Trustee recognises 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 Trustee will consider periodically whether it is appropriate to add additional asset classes to the above investment strategy, or remove asset classes that no longer fit with the Trustee’s objectives.
- The investment strategy will be reviewed periodically, with a view to amending it to reflect any changes in the liability profile of the Scheme, the perceived strength of the

principal employer covenant and/or the funding objectives of the Trustee if necessary.

- The Trustee accepts 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 Trustee's desire to avoid making significant sales or purchases at an inappropriate time or views on evolving market conditions and the risks involved versus the Trustee's 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 Trustee has 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 Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustee utilises 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 Trustee will review the fund appointment to ensure that it remains appropriate and consistent with the wider Trustee's 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 Trustee 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 Trustee accepts that it has no ability to specify the risk profile and return targets of the managers, 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 Trustee is dissatisfied, then it will consider replacing the manager.

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

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

The Trustee receives investment manager performance reports from the managers and Mercer on a quarterly basis, which present performance information over various time periods. The Trustee reviews 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 Trustee may also evaluate a manager's performance using risk metrics. The Trustee's focus is primarily on long term performance but short term performance is also reviewed. As noted above, the Trustee 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 Trustee may initially ask the manager to review their fees instead of terminating the appointment.

### **3.3 Portfolio Turnover Costs**

The Trustee does 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 Trustee receives some MiFID II reporting from its investment managers but does not analyse the information. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask managers to report on portfolio turnover costs explicitly. It 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 Trustee does not currently actively monitor the portfolio turnover costs of the assets for members' Additional Voluntary Contributions.

### 3.4 **Manager Turnover**

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

For open-ended funds, the Trustee 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 Trustee is no longer comfortable that the manager can deliver the mandate.

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

The Trustee has 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 Trustee recognises 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 Trustee holds a mixture of assets from those that are redeemable daily to those 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 Trustee's 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 Trustee and the needs of the members.

**7. Effective Decision Making**

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

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

The Trustee believes 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 Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given the appointed investment managers 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 Trustee reviews 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 Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring the existing investment managers. The Trustee 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 Trustee. The Trustee will also consider ESG integration, climate change and stewardship when implementing future investment strategy decisions.

The Trustee recognises 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 Trustee has 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 Trustee does not consider members' views on "non-financial matters".

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

The Trustee, 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 Trustee** will review this Statement from time to time and at least every three years on the advice of Mercer. The Trustee 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 Trustee will provide the investment managers with the revised Statement.

The **investment managers**, will prepare regular reports to the Trustee 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 Trustee to review and update this Statement as necessary.

**For and on behalf of MCPS Corporate Trustee Limited, the Trustee of the Mothercare Executive Pension Scheme**

Print Name: Andrew Evans

Print Name: Andrew Boorman, BESTrustees Limited

Date: 13 September 2023