The Morris Pension Scheme

Statement of Investment Principles

July 2021

Contents

1. Introduction

1.1 What is the purpose of this Statement of Investment Principles ("SIP")?

This SIP sets out the policy of the Morris & Company Trust Fund Limited (the "Trustee") on matters governing decisions about the investments of The Morris Pension Scheme (the "Scheme").

The Scheme is a Registered Pension Scheme for the purpose of the Finance Act 2004. The Scheme is a Defined Benefit ("DB") Scheme which is closed to new members.

1.2. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Act and all subsequent legislation, Regulations and guidance from the Pensions Regulator applying to UK pension schemes.

1.3. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Advisory ("Quantum"), the Trustee's investment adviser, and consulting Morris & Company Limited (the "Principal Employer") as required by the Act and subsequently by the Regulations. Quantum has the knowledge and experience required under the Regulations to provide professional advice on the management of the Scheme's investments.

2. Investment objectives and strategy

2.1. Investment policy

The Scheme's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Scheme's Trust Deed.

The Trustee is aware of the need to invest assets in the best and sole interest of the members and that the powers of investment must be exercised in a manner which supports the security, quality, liquidity and profitability of the Scheme as a whole.

The Trustee recognises that the assets of the Scheme must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must, in any event, be kept to a prudent level.

2.2. Investment objective

The Trustee, with the help of their advisers and in consultation with the Principal Employer, set the current investment strategy following consideration of its objectives and other related matters during 2017.The Trustee noted the need to invest in a manner which helps ensure that the benefits promised to members are provided. Over the long term, this requires that a rate of return is achieved which supports the long-term funding plan which has been discussed with the Sponsoring Employer. In the short term, it means managing the volatility of assets relative to the value of liabilities, which have bond-like characteristics.

2.3. What did the Trustee consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustee considered:

- the investment objectives;
- the Scheme's characteristics;
- the annual management charges and other charges;
- the fact that, for the foreseeable future, contributions receivable by the Scheme are not likely to exceed benefits payable;
- the risks and rewards of different asset classes and investment strategies;
- the expectation that, over the long-term, equities and property are likely to produce higher returns than bonds, but at the risk of short-term volatility or liquidity constraints;
- the need for appropriate diversification between different asset classes;
- the financial strength and reputation of each investment manager;
- the financial strength of the investment managers' custodian; and
- the strength of the Principal Employer's covenant to support the Scheme.

2.4. What risks were considered and how are they managed?

In order to achieve its objectives, the Trustee recognised the need to invest in both "liability matching" and "return seeking" assets (see 2.6.). The Trustee identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that an investment manager will not meet its targets;
- the risk that the value of liabilities may increase due to changes in actual and expected inflation and interest rates;
- the risk of mis-match between the value and timing of the Scheme's income and outgo;
- the risk of a shortfall in the liquid assets held by the Scheme relative to its immediate liabilities;
- the risk that the performance of any single investment within the Scheme's 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 Scheme assets;
- the risk that Environmental, Social and Governance ("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; and
- direct property risks;
    - the risk of rental vacancy of a property, which could impact returns and income receivable that is currently used for cashflow purposes;
    - concentration of risk specific to an asset that accompanies direct property holdings. There is a lack of protection against unforeseen circumstances (e.g. damage to the property or a decline in affluence of the surrounding area of the property) when invested directly in a single property as opposed to a pooled property fund, which will simultaneously invest in many properties; and
    - illiquidity risk of direct property holdings, lack of value transparency and a longer time frame to sell, as the direct property investment is not actively traded.

The Trustee recognises these different types of risk and seeks to minimise them as far as possible by the use of regular monitoring of investment performance; by a deliberate policy of diversification; by taking into account the timing of future payments; and by regularly reviewing the appropriateness of the prevailing strategy against the Scheme's objectives. The direct property risks are managed by utilising specialist advisers and the Principal Employer's expertise within the field.

2.5. What is the Trustee's policy on Financially material considerations, non-financial matters and stewardship policies?

2.5.1. Financially material considerations

The Trustee acknowledges the potential impact upon the Scheme's investments (both in terms of risk and return) arising from financially material matters. The Trustee defines these as including, but not limited to, ESG factors (including 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 managers. The Trustee has provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. The Trustee also periodically considers 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 manager's consideration of ESG factors. The Trustee does however expect the incumbent managers, where relevant, to utilise their position to engage with companies on these matters.

The Trustee also considers ESG factors when determining future investment strategy decisions. To date, the Trustee has not established any restrictions on the appointed investment managers, but may consider this in future.

2.5.2. Stewardship

The Trustee acknowledges the constraints that they face in terms of influencing change due to the size and nature of the Scheme's investments. It does, however, acknowledge the need to be responsible stewards and exercise the rights associated with its investments in a responsible manner.

The Trustee considers how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustee has provided the appointed investment managers with full discretion concerning the stewardship of their investments.

2.5.3. 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.

2.6. What is the investment strategy?

The investment strategy uses two key types of assets:

- "Matching assets": these exhibit characteristics similar to those of the Scheme's liabilities. Typically, matching assets are low risk fixed income investments and the return from them is similar to the return on UK government bonds (referred to as the 'minimum risk' return).

  The Trustee recognises that there are benefits to be derived from the use of Liability Driven Investment ("LDI") solutions, such as the use of gearing. However, such solutions come with enhanced governance criteria, such as the management of collateral and counterparty risk. The existing LDI solution was designed to hedge c.90% of the value of the Scheme's liabilities (as at the date of implementation) against movements in nominal and real interest rates. The LDI arrangement is managed by Insight Investment Management Limited ("Insight"). The movement of collateral between the Scheme and Insight, in order to maintain the LDI hedge, is controlled by the Trustee and advised by Quantum; and

- "Return seeking assets": which target a rate of return in excess of the minimum risk return. Typically, these are equities or a diversified pool of other non-matching assets which, over the long term, might be expected to deliver 3% to 4% pa above the minimum risk return.

Following the investment strategy review in 2017, a strategic asset allocation was agreed. The strategy aims to deliver an appropriate mix of investments, which support the Scheme's investment objectives. Details of this are set out in Appendix 1.

2.7. Fund managers, style and target returns

The funds in which the Scheme invests are pooled funds, which the Trustee believes are appropriate given the size and nature of the Scheme. These pooled funds are accessed through an implementation solution provider, Mobius Life Limited ("Mobius"). Details of the funds, managers, styles, benchmarks and target returns used by the Scheme can be found in Appendix 1.

The relationship with each investment manager is open ended and is reviewed on a periodic basis.

The Scheme's direct property holdings are managed by Morris & Co Limited on behalf of the Trustee. No fees are charged by Morris & Co Limited for this service.

2.8. Currency hedging

The Trustee does not have a policy of explicitly hedging currency risk, (with the exception of the Equity Fund) instead, this risk is managed by the investment managers.

2.9. Re-balancing

The Trustee, in consultation with the investment adviser, will rebalance back to the central benchmark outlined in Appendix 1 on an ad-hoc basis, and when investing and disinvesting for cash flow purposes as set out in section 2.10.

2.10. Cash flow management

Rental income from the Scheme's property holdings is used to meet cash flow requirements. Any additional investments and disinvestments, required for cash flow purposes, should be used to assist the Scheme in maintaining its strategic benchmark allocation within the core portfolio (assets excluding the LDI solution).

Investments are allocated to the most underweight holdings in sequential order (excluding the Scheme's LDI holdings). Disinvestments are made to assist the Scheme in maintaining the strategic benchmark of the return seeking portfolio. Disinvestments are made from the most overweight funds in sequential order. The Trustee recognises that this cash flow procedure may result in the LDI exposure and direct property holdings representing a larger proportion of the portfolio as time progresses. This is reviewed on a periodic basis.

3. Implementation solution

3.1. Implementation solutions in general

An implementation solution is a service that enables pension schemes to buy, sell and hold their investments all in one place. This allows greater flexibility and efficiency when switching investments as the Scheme strategy changes or fund managers have to be replaced.

The centralisation of funds also allows consolidated reporting to be obtained more easily and more regularly, ensuring an investment strategy and associated flight path can be effectively tracked and monitored. All of these features allow pension schemes greater administrative efficiency, enhanced ease of strategy implementation and potential fee reductions.

3.2. Accessing the implementation solution

Each pension scheme enters into a unit linked life policy through a Trustee Investment Policy ("TIP"). The policy's value is linked to the underlying investments, which the implementation solution provider, in this case Mobius, has been directed to purchase. Mobius is responsible for investing into the underlying funds and takes responsibility for the relationship with the underlying fund managers. This includes transactions, reporting and governance. This differs from a traditional relationship that a pension scheme would have had with their fund managers where they would have invested directly with these managers and maintained a number of these individual relationships.

4. Additional Voluntary Contributions ("AVCs")

4.1. What is the strategy for AVCs?

AVCs are available on a defined contribution basis only.

The AVC assets are currently invested in individually earmarked policies with Clerical Medical.

The Trustee believes the range of fund options available gives members access to a simple, efficient, and diversified strategy.

The relationship with the AVC provider is open ended. The Trustee periodically reviews the suitability and performance of these investments to ensure they remain appropriate to the members' needs.

5. Appointment of investment managers

5.1. How many investment managers are there?

Details of the appointed investment managers are outlined in Appendix 1.

5.2. What formal agreements are there with the investment managers and platform provider?

The Trustee has signed policy documentation as appropriate with Mobius and Clerical Medical for the Scheme.

The Trustee keeps the appointment of all investment managers and AVC providers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Scheme's investment strategy.

5.3. What are the investment managers' responsibilities?

The investment manager is responsible for the day-to-day management of the investments and is responsible for appointing custodians, if required.

The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

Any performance requirements for the managers are detailed in Appendix 1.

5.4. Custodians and administrators

The Scheme's investments with these managers are through pooled investment vehicles. Therefore, there is no need for the Trustee to formally appoint a custodian as the investment comprises units held in listed investment vehicles rather than the underlying stocks and shares.

However, the underlying managers have appointed custodians for the safe custody of assets and these are detailed in Appendix 1. Note, as the Scheme's units are held with Mobius, custody of assets held with managers is under the Mobius name.

5.5. What is the Trustee's policy on investment in the Principal Employer?

The Scheme does not directly hold any shares in the Principal Employer. However, the Principal Employer is engaged on a nil fee basis to manage the direct property holdings on behalf of the Trustee.

6. Other matters

6.1. What is the Trustee's policy on the realisation of investments?

The investment managers have discretion over the timing of realisation of investments within the pooled vehicles held by the Scheme and in considerations relating to the liquidity of investments.

Under the circumstances where the Scheme experiences negative cash flow, the Trustee and its administrator will decide on the amount of cash required for benefit payments and other outgoings and will inform the investment managers of any liquidity requirements.

In the absence of any strong conviction concerning the future movement of markets, assets will be disinvested to rebalance the Scheme's assets taking into account the asset allocation outlined in Appendix 1 and the costs and risks associated with any rebalancing (excluding the LDI strategy). The Trustee notes that ad hoc cash flow requests cannot be drawn from the direct property investments and this may have the effect of temporarily distorting the asset allocation of the Scheme away from the strategic benchmark.

6.2. How are various parties who are involved in the investment of the Scheme's assets remunerated?

Quantum is remunerated on a fixed fee basis. Quantum does not receive commission.

The Trustee has selected their investment managers to implement their investment strategy in an efficient manner, in line with the Scheme's investment objectives. The Trustee does not directly incentivise the managers to align their investment strategy and decisions with the Trustee's policies.

The Trustee does not directly incentivise the investment managers to engage with the issuers of debt or equity to improve performance. The Trustee does, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The investment managers and Mobius are remunerated on a fee that is calculated as a fixed percentage of the total Scheme funds they hold under management. This structure has been chosen to align the fund managers' and Mobius' interests with those of the Scheme. In addition, the fund managers may pay commissions to third parties on trades they undertake in the management of the assets. The Trustee can obtain annual statements from the investment managers setting out all the costs of the investment of the Scheme assets.

The Trustee considers the fees and charges associated with each investment before investing and periodically thereafter.

The Principal Employer is not remunerated for its management of the direct property portfolio.

6.3. Direct investments

The Trustees' policy is to review its direct investments (if any) 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 Trustees will obtain written advice from the Scheme's investment adviser and property adviser. If the Trustees believe that an investment is no longer suitable for the Scheme, they 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.

6.4. Does the Trustee take any investment decisions on its own?

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions and delegates others.

When deciding which decisions to take, and which to delegate, the Trustee takes into account whether it has the appropriate training and expertise in order to make an informed decision.

The Trustee has established the following decision-making structure:

Trustee

- Set structures and processes for carrying out their role.
- Agree structure for implementing investment strategy.
- Select and monitor planned asset allocation.
- Select and monitor investment advisers and fund managers.
- Select and monitor direct investments.
- Prepare and maintain the Statement of Investment Principles.

Investment adviser will, when requested by the Trustee:

- Advise on the overarching investment strategy and investment of the Scheme's assets, including implementation except for the individual property holdings. E. Lowe advises on the property investments.
- Advise on this Statement.
- Provide required training.

Investment (or fund) managers

- Operate within the terms of the written contracts and agreements.
- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Ensure the suitability of the chosen benchmark for the respective investment vehicle.

Property adviser

- Select and advise on property investments suitable for the Scheme.

Property managers – Morris & Company Limited

- Responsible for management of direct property holdings and related services.

6.5. How does the Trustee manage potential conflicts of interest?

The Trustee considers any potential and actual conflicts of interest (subject to reasonable levels of materiality) at the start of each Trustee's meeting and documents these in the minutes.

7. Review

7.1. How often are investments reviewed?

Strategy reviews are undertaken periodically. Typically, these will occur after triennial actuarial valuations of the Scheme; but more frequent reviews can occur in light of a material change of circumstances. Any change in investment strategy may necessitate a change in investment managers, regardless of the underlying performance of the funds.

Investment performance of individual funds is monitored and reviewed bi-annually, with assistance from Quantum as required. Morris & Company Limited manage and review the Scheme's direct property.

7.2. How do the Trustees monitor portfolio turnover costs and portfolio turnover?

The Trustee has delegated the selection of holdings to the appointed investment managers. The Trustee has the option to receive an annual report from the investment managers setting out portfolio turnover and the associated costs and may review this periodically.

The Trustee has not set a specific portfolio turnover target for each investment manager and recognises that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

7.3. Monitoring the capital structure of investee companies?

The Trustee has delegated the monitoring of the capital structure of the investee companies to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

7.4. How often is this SIP reviewed?

The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Any change to this SIP will only be made after a) having obtained and considered the written advice of someone who the Trustee reasonably believe to be qualified by their ability in, and practical experience of, financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments; and b) consulting the Sponsoring Employer.

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Signature

R. C. MORRIS
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Name

For and on behalf of The Morris Pension Scheme

Appendix 1 – Managers, asset allocation & fund details

Managers and asset allocation

The following table shows the long-term strategic asset allocation for the Scheme. The allocation is monitored relative to this allocation bi-annually and re-balanced on an ad hoc basis. At the time of signing the SIP, the Scheme was in the process of selling part of the direct property holding to reduce the existing exposure towards the target weight.

Asset class	Manager	Fund	Asset allocation (%)
Return seeking assets			**100.0**
Equity	LGIM	World Equity Index	7.5
	LGIM	World Equity Index – GBP Hedged	7.5
Diversified Growth	BNY Mellon	Real Return Fund	14.0
	LGIM	Dynamic Diversified Fund	21.0
	Insight	Broad Opportunities Fund	21.0
	M&G	Episode Allocation Fund	14.0
Property	N/A	Direct investments	15.0
Matching assets			
LDI	Insight	Enhanced Selection LDI Range	100.0*
Cash	LGIM	Cash Fund	
Total			**100.0**

* The Insight Enhanced LDI Range invests in four liability matching funds to aim to hedge c.90% of the Scheme's liabilities. Approximately 25% of the Scheme's assets are invested in the Insight Enhanced Selection Funds and LGIM Cash Fund to achieve a hedge of c.90% of the Scheme's liabilities at the implementation date.