Statement of Investment Principles
Introduction

The Trustee of the Marks & Spencer Pension Scheme (“the Scheme”) has prepared this Statement of Investment Principles (“SIP”), in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it). The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

This written statement outlines the principles and policies governing determinations about investments made by or on behalf of the Trustee in the management of the Scheme’s assets. This document has been drafted in the light of the Myners’ Principles for institutional investment decision-making as amended.

The Trustee will review this SIP at least annually and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Scheme’s Investment Adviser and consulted Marks & Spencer plc (the ‘Company’) as Principal Employer. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

This document covers the governance of the Scheme, the investment objectives and policy, the funding requirements and risk control. An Appendix to the document includes the asset allocation policy together with the individual investment management arrangements. A copy of the Appendix is available to members upon request.

A glossary for the SIP can be found on the Scheme’s website:

https://www.mandspensionscheme.com/useful-information/glossary

Scheme Structure

The Scheme is comprised of a defined benefit (“DB”) arrangement, under which members receive a pension based on the number of years of service and pensionable salary, and an Additional Voluntary Contribution (AVC) arrangement, which is now closed to new contributions. The AVC arrangement is a money purchase platform offering a range of investment alternatives, which gave members of the DB Scheme the opportunity to increase their retirement income.

Governance

The Trustee has ultimate responsibility for decision-making on investment matters. However, to enable an appropriate level of attention to investment issues, the Trustee has delegated the majority of investment matters, with decision-making powers where appropriate, to an Investment Committee (“IC”) of the Trustee. All decisions of the IC are recorded in Committee minutes and made available to the full Trustee Board.

In addition, with Trustee approval, the IC has established a sub-committee, the Growth Assets Committee (“GAC”) to implement the Scheme’s investment allocation to those assets that fall outside of the Scheme’s dedicated liability hedging portfolio, (for example equity, credit, private equity, infrastructure and opportunistic investments.)

In broad terms, the IC is responsible for:

– Overall asset allocation, risk hedging and cashflow.
– Investment policy and SIP.
– Maintaining and monitoring portfolio parameters and the annual plan for the Scheme’s growth assets, monitoring investment managers.
– Dealing with any other specific investment related issues that arise.
– Reviewing the performance of the Investment Adviser, Custodian, Consultants and other advisors.
– Appointing and removing members of the GAC and monitoring the work of that sub-committee.
– Appointing advisors and consultants for specific projects.

In broad terms the GAC is responsible for:

– Establishing and maintaining an Annual Plan for the Scheme’s growth asset to meet the objectives set and for approval by the IC.
– Monitoring the performance of the investment managers portfolios against their objectives and the quality of their investment teams and processes.
– Proactively considering any new investment opportunities which become available for investment within the Scheme’s growth assets.
– Investigating other specific investment-related issues and projects as directed by the IC.
– Appointing investment advisers, lawyers and consultants for specific projects.
– Overseeing the management of transitions and cash draw down arrangements to be arranged by the Trustee Executive Team in conjunction with external investment managers and funds.

The IC has delegated responsibility in respect of appointing, monitoring and removing investment managers to the GAC and Trustee Executive Team with advice from the appointed Investment Adviser. The IC may not further delegate its powers, unless further approved by the Trustee.

**Investment Objective and Strategy**

The Scheme’s primary objective is to have sufficient funds to meet the Scheme’s liabilities as and when they fall due. It aims to do this by:

– investing in a range of suitable assets of appropriate liquidity which will generate, in the most efficient and effective manner possible, income and capital growth to ensure that, with any required contributions from the Company, there are sufficient assets to meet the cost of the benefits which the Scheme provides in its DB arrangement.

– hedging interest and inflation risks to the Scheme’s funding by investing in appropriate gilts and interest and inflation swaps.
– minimising exposure to excessive short-term volatility of investment returns.

– minimising the long-term costs to the Company by maximising the return on the assets, whilst having regard to the risk objectives described above.

– hedging longevity risk, by entering into buy-in contracts with insurers and longevity swap contracts to protect against the financial loss associated with any mortality improvements on a specific set of pensioners.

The Scheme has a framework in place for reaching full funding on a “Long-Term Funding Target” basis of gilts+0.5% with a 50%-75% probability of achieving this between 31 March 2024 and 31 March 2034. As at the date of this document, the Trustee believes that the expected return from the Scheme’s investment strategy will be sufficient to meet this target, within an appropriate degree of risk.

**Implementation and Types of Investment**

The investment strategy utilises:

– a range of instruments that provide a better match to changes in liability values,

– a diversified range of growth assets, including (but not limited to) equities, credit and property, and;

– active management of portfolios where this is deemed efficient and effective.

The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Scheme’s investment objective.

Assets may be held in cash and other money market instruments from time to time as may be deemed appropriate.

The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Adviser and the Scheme Actuary, the appropriateness of its investment strategy.

The expected return of the investment strategy will be monitored regularly and with regard to its appropriateness to the Scheme’s investment objective.

There will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets should not disrupt the Scheme’s overall Investment Strategy. The Trustee, together with the Scheme’s administrators, will hold sufficient cash to meet benefit and other payment obligations.
## Risk Measure & Management

The Board recognises a number of risks involved in the investment of the assets of the DB arrangement, and monitors these risks on a regular basis:

<table>
<thead>
<tr>
<th>Risk Measure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deficit Risk</strong></td>
<td>Measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to current and alternative investment policies; managed through assessing the progress of the actual growth of the liabilities relative to the selected investment. A formal asset/liability monitoring report is reviewed by the Trustee on a quarterly basis, which provides an updated position of the Scheme’s funding position.</td>
</tr>
<tr>
<td><strong>Manager risk</strong></td>
<td>Measured by the expected volatility of the appointed investment managers’ returns, as set out in the manager(s)’ objectives, relative to the investment policy; managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager’s investment process.</td>
</tr>
<tr>
<td><strong>Liquidity risk</strong></td>
<td>Measured by the level of cash flow required by the Scheme over a specified period; managed by the Trustee Executive Team through regular communication with the Scheme administrator and the investment managers to ensure that sufficient cash balances are available at the appropriate time and by ensuring that investment is made in suitably liquid and readily realisable assets.</td>
</tr>
<tr>
<td><strong>Currency risk</strong></td>
<td>Addressed through the investment manager guidelines and through the implementation of a currency hedging programme, which reduces the impact of exchange rate movements on the Scheme’s asset value.</td>
</tr>
<tr>
<td><strong>Political risk</strong></td>
<td>Measured by the level of concentration of investment in any one market leading to the risk of an adverse influence on investment values arising from political intervention and action; managed by regular reviews of the actual investments relative to the investment strategy and through regular assessment of the levels of diversification within the existing investment strategy.</td>
</tr>
<tr>
<td><strong>Sponsor risk</strong></td>
<td>Measured by the assessed ability and willingness of the Company to support the continuation of the Scheme and to make good any current or future deficits; Managed through an agreed Contribution Schedule and Recovery Plan as appropriate, a Long Term Funding Target agreed with the Company and regular reviews of the Company’s performance and business outlook undertaken by the Trustee’s appointed Covenant Adviser.</td>
</tr>
<tr>
<td><strong>Custodian risk</strong></td>
<td>Measured by assessing the credit-worthiness of the custodian bank(s) appointed by the Trustee in respect of segregated investment portfolios and the arrangements associated with the appointed Investment Managers in respect of pooled fund arrangements. Also by assessing the ability of the organisation(s) to settle trades on time and provide secure safekeeping of the assets under custody; managed by monitoring the custodian(s)’ activities and discussing the performance of the custodian(s) with the investment managers when appropriate. Restrictions are applied to whom within the Trustee and the</td>
</tr>
</tbody>
</table>
Trustee Executive Team can authorise transfers of cash and the account(s) to which transfers can be made.

<table>
<thead>
<tr>
<th><strong>Environmental Social and Governance (“ESG”) risk</strong></th>
<th>Measured by the level of concentration in individual stocks leading to the risk of an adverse impact of investment values arising from manifestation of ESG risks; managed by regular reviews of stock concentration, regular discussions with the investment managers about ESG risks and reporting from an appointed ESG overlay and reporting manager.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fraud/Dishonesty</strong></td>
<td>Addressed through a crime insurance policy, and internal and external audit.</td>
</tr>
<tr>
<td><strong>Inappropriate investments</strong></td>
<td>Addressed through constraints on the use of derivatives, gearing, specific asset limits and other restrictions.</td>
</tr>
</tbody>
</table>
| **Derivatives Risk** | Counterparty risk: this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, CSA, GMRA or other relevant derivatives documentation. 
Basis risk: the returns from assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment objectives adopted by the Trustee for such assets and monitoring of the performance of the appointed investment managers’.
Assumption risk: pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging cashflows and benchmark at appropriate regular intervals.
Legal and operational risks: the successful operation of derivatives depends on robust legal documentation governing the derivative contracts and the correct completion of operational support tasks including collateral management. The Trustee takes appropriate legal advice when putting in derivative documentation, reviewing existing arrangements and appointing and monitoring providers capable of carrying out the required operational tasks.
The Trustee is also aware of the risks relating to the initial terms of entry (purchasing the swap contracts at a competitive price) and the valuation of the swaps on an ongoing basis and, with the support of their appointed Investment Adviser, the IC monitors these positions on a regular basis. |
| **Buy-in insurer risk** | This is the risk that the buy-in insurers fail to pay the benefits secured under the buy-in contract, particularly as the Scheme has opted for uncollateralised agreements. Addressed by having selected a regulated insurer, reliance on the insurance regulatory regime and with appropriate termination rights which have been agreed with the insurers and written into the contracts. |

A risk matrix setting out the risks and associated actions to mitigate the risks is produced annually and reviewed by internal audit.
**Investment in the Company**

Self-investment in the Company’s Equity and Debt is limited to that held within pooled funds, for example to achieve index tracking, within alternative asset class pooled funds or within AVC funds. The Board monitors these holdings on a quarterly basis to ensure that the statutory 5% overall limit to self-investment is not breached. The holdings of the AVC’s are also included in this calculation.

**Investment managers**

In accordance with the Financial Services and Markets Act 2000, the Trustee sets the overall investment strategy and implementation policy, but delegates the responsibility for selection of specific investments to appointed investment manager(s). The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

The Trustee is not involved in the investment managers’ day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme’s long term objectives, and an acceptable level of risk. As part of this process, the Trustee has delegated the detailed monitoring of the Scheme’s investment managers to its IC with advice from the Investment Adviser.

Specific investment restrictions appropriate to individual investment managers are included in the IMAs agreed with those managers.

**Responsible Investing**

The Scheme’s primary concern in setting its investment strategy, is to act in the best financial interests of its members and the investment strategy is formulated to support its objective of paying member benefits as and when they fall due.

The Trustee believes that companies that effectively manage Environmental Social and Governance (“ESG”) risks can protect and enhance value by, for example, avoiding risk to their reputation, reducing potential financial liability and by increasing their ability to recruit and retain high-quality staff. Therefore the Scheme wishes to promote the proactive management of ESG risks amongst the companies in which the Scheme invests and expects its appointed investment managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision making process and also to exercise their voting rights. To aid the Trustee in monitoring of and engagement with ESG issues, the Trustee has appointed an ESG overlay service.

The Trustee is a signatory to both the United Nations Principles of Responsible Investment and the FRC Stewardship Code and has produced a policy on voting and engagement which is shared with the Scheme’s appointed investment managers. The Scheme’s policy on voting and engagement and UK Stewardship Policy Statement are published on the Scheme’s website and copies are available on request.
The Scheme's AVC arrangement is now closed to new monies. However, for monies previously invested, the AVC arrangement is a money purchase platform offering a range of investment alternatives, 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 Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members’ benefits will be directly determined by the value of the underlying investments. The AVC fund options are regularly reviewed by the IC.