W Lucy Pension Scheme

Statement of Investment Principles

May 2020

1 Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustees of the W Lucy Pension Scheme (the Scheme). The Statement sets down the principles which govern the decisions about the investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018.

1.2 In preparing this statement the Trustees have consulted Lucy Group Ltd, (the "Principal Employer"), and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4 The Trustees will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.5 The investment powers of the Trustees are set out in Clause 7 of the Definitive Trust Deed & Rules, dated 9 May 2007. This statement is consistent with those powers.

2 Choosing Investments

2.1 The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2 The day-to-day management of the Scheme's assets is delegated to one or more fund managers. The Scheme's fund managers are detailed in the Appendix to this Statement. The fund managers are responsible for stock selection and the exercise of voting rights.

2.3 The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustees will also consult the employer before amending the investment strategy.

3 Investment Objectives

3.1 The Trustees' main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employer, the cost of current and future benefits which the Scheme provides;

- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4 Kinds of investments to be held

4.1 The Scheme can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

4.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

4.3 No investment in employer-related investments is permitted, except in the form of contingent assets for the Scheme.

5 The balance between different kinds of investments

5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2 The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3 From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflow requirements or any other unexpected items.

5.4 The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6 Risks

6.1 The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

6.2 **Risk versus the liabilities** The Trustees will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

6.3 **Asset Allocation risk** The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.

6.4 **Fund manager risk** The Trustees monitor each of the Scheme's fund manager's performance on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

6.5 **Concentration risk** Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

6.6 **Loss of investment** The risk of loss of investment by each fund manager and custodian is assessed by the Trustees.

6.7 **Liquidity risk** The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

6.8 **Covenant risk** The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

6.9 **Solvency and mismatching** Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

6.10 **Currency risk** The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

7 Expected return on investments

7.1 The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

7.2 The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3 In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4 Having established the investment strategy, the Trustees monitor the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's fund managers as frequently as is appropriate in order to review performance.

8 Realisation of investments

8.1 The Trustees have delegated the responsibility for buying and selling investments to the fund managers. The Trustees have considered the risk of liquidity as referred to above.

8.2 Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9 Environmental, Social and Governance factors, Engagement and Voting Rights

9.1 The Trustees have set policies in relation to these matters. These policies are set out in Appendix 2.

10 Agreement

10.1 This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the fund managers, the actuary and the Scheme auditor upon request.

Signed: G. D Ashton **Date:** 1/6/2020

On behalf of the W Lucy Pension Scheme

Appendix 1 Note on investment policy of the Scheme as at 19 May 2020 in relation to the current Statement of Investment Principles

Choosing investments

The Trustees have appointed the following fund managers to carry out the day-to-day investment of the fund:

- Legal & General Assurance (Pensions Management) Limited
- Insight Investment Management Limited
- GMO Funds PLC
- Ruffer LLP
- BlackRock (Channel Islands) Limited
- Threadneedle Investment Services Limited.

Kinds of investments to be held

The Trustees have considered all asset classes and have gained exposure to the following asset classes:

- UK Equities;
- Overseas Equities;
- Fixed Interest Gilts;
- Corporate bonds;
- Property;
- Diversified Growth/Absolute Return Funds;
- Cash

Investment Fees

The fee arrangements with the fund managers are summarised below:

Fund manager	Fees
Legal & General	Flat charge of £1,000 pa
UK Equity Index Fund	0.10% pa on the first £10m 0.075% pa on the next £10m
World Emerging Markets Equity Index Fund	0.45% pa on the first £5m 0.35% pa on the next £5m
Global Equity 50:50 Fund	0.165% pa on the first £2.5m 0.155% pa on the next £7.5m
North America Equity Index Fund	0.20% p.a. on the first £1m 0.175% on the next £2.5m 0.15% p.a. on the next £10m
Europe (ex UK) Equity Index Fund	0.25% on the first £1m 0.225% on the next £2.5m 0.20% on the next £10m
Japan Equity Index Fund	0.225% on the first £1m 0.20% on the next £2.5m 0.175% on the next £10m
Asia pacific (ex Japan) equity Index Fund	0.275% on the first £1m 0.25% on the next £2.5m 0.225% on the next £10m
Insight	
UK Broad Market Bond	0.3% pa
UK Corporate All Maturities Bond	0.3% pa
UK Government All Maturities Bond	0.3% pa
GMO	
Global Equity Allocation Investment Fund	Annual management charge: 0.60% pa Expense charge: capped at 0.08% pa
Ruffer	
Absolute Return Fund	1.20% pa
BlackRock	
Dynamic Diversified Growth Fund	0.65% pa
Threadneedle	
Dynamic Real Return Fund	0.50% pa

The Trustees have AVC contracts with Equitable Life and Prudential for the receipt of members' Additional Voluntary Contributions. These arrangements are reviewed from time to time.

The investment managers and AVC providers are authorised and regulated by the Financial Conduct Authority.

The fee arrangements with the AVC providers are summarised below:

AVC provider	Annual Management Charge (% p.a.)	Benchmark
Prudential		
Deposit Fund	No explicit AMC	Bank of England Base Rate
Equitable Life		
With-profits	1.00% pa + 0.5% guarantee charges	n/a
Managed Fund	0.75% pa	ABI Mixed Investment 40-85% Shares
Pelican Fund	0.75% pa	ABI UK All Companies
European Fund	0.75% pa	ABI Europe excluding UK Equities
Far Eastern Fund	0.75% pa	ABI Asia Pacific excluding Japan Equities

The objective of the funds is to track the return of the benchmark set out above. The performance of fund managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham is remunerated on a time-cost basis.

The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification. The investment benchmarks and objectives for each fund manager are given on the following page.

Fund manager	Benchmark	Objective
Legal & General (L&G)		
UK Equity Index Fund	FTSE All-Share Index	Track the benchmark to within +/- 0.25% pa for two years in three (net of fees).
World Emerging Markets Equity Index Fund	FTSE All-World Emerging Markets Index	Track the benchmark to within +/- 1.50% pa for two years in three (net of fees).
Global Equity 50:50 Fund	Composite of 50/50 distribution between UK and overseas.	The investment objective of the Fund is to provide diversified exposure to the UK and overseas equity markets.
North America Equity Index Fund	FTSE World North America Index	To track its benchmark to within +/-0.5% p.a. for two years out of three.
Europe (ex UK) Equity Index Fund	FTSE Developed Europe ex UK Index	To track its benchmark to within +/-0.5% p.a. for two years out of three.
Japan Equity Index Fund	FTSE Japan Index	To track its benchmark to within +/-0.5% p.a. for two years out of three.
Asia pacific (ex Japan) equity Index Fund	FTSE World Asia Pacific ex Japan Index	To track its benchmark to within +/-0.75% p.a. for two years out of three.
Insight		
UK Broad Market Bond	50% FTSE-A All Stocks Gilts, 50% iBoxx Sterling Non-Gilts index	Outperform the benchmark by +1.0% pa over rolling three year periods (gross of fees).
UK Corporate All Maturities Bond	iBoxx Sterling Non-Gilt All Maturities index	Outperform the benchmark by +1.0% pa over rolling three year periods (gross of fees).
UK Government All Maturities Bond	FTSE-A British Government All Stocks Gilt index	Outperform the benchmark by +0.75% pa over rolling three year periods (gross of fees).
GMO		
Global Equity Allocation Investment Fund	MSCI All Country World Index	Outperform the benchmark over the longer term.
Ruffer		
Absolute Return Fund	Bank of England Base Rate	Low volatility and positive returns in all market conditions.
BlackRock		
Dynamic Diversified Growth Fund	LIBOR	Outperform the benchmark by +3.0% pa, over the longer term.
Threadneedle		
Dynamic Real Return Fund	UK Consumer Price Index	Benchmark + 3.5% p.a. net of fees over 3-5 year investment horizon.

As at 31 March 2020, the assets were allocated as follows:

Asset allocation at 31 March 2020 (%)	
"Growth" assets	**71.7%**
Equities	*59.3%*
L&G UK Equity Index Fund	15.5%
L&G North America Equity Index Fund	1.5%
L&G Europe (ex UK) Equity Index Fund	1.5%
L&G Japan Equity Index Fund	1.4%
L&G Asia Pacific (ex Japan) Equity Index Fund	1.5%
L&G World Emerging Markets Equity Index Fund	7.8%
L&G Global Equity 50:50 Index Fund	14.6%
L&G World Equity Index (MSCI) Fund	4.0%
GMO Equity Allocation Investment Fund	11.5%
Property	*1.2%**
UBS Triton Property Unit Trust	1.2%
Absolute & Target Return	*11.2%*
BlackRock Dynamic Diversified Growth Fund	1.3%
Ruffer Absolute Return Fund	5.2%
Threadneedle Dynamic Real Return Fund	4.6%
"Protection" assets	**28.3%**
Insight UK Government All Maturities Bond Fund	5.3%
Insight UK Corporate All Maturities Bond Fund	15.0%
Insight UK Broad Market Bond Fund	8.0%
Total	**100%**

*The Scheme disinvested from the UBS Property Fund at the beginning of April 2020 and the funds released have been earmarked for investment in the Threadneedle Dynamic Real Return Fund in due course.

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements.

The Trustees expect that growth assets will outperform protection assets over the long term, but will have higher volatility. The Trustees' investment strategy will generally tend to invest in growth assets to meet distant payments and protection assets to meet payments due in the shorter term. As the Scheme liabilities increase in maturity (i.e. as the proportion of liabilities in payment increases), the Trustees therefore expect to gradually increase the allocation to protection assets.

Investment of new money

New money is invested as the Trustees decide after taking advice from their investment consultants.

Realisation of investments

Where contributions from the principal employer are not expected to be sufficient to meet the cashflow requirements of the Scheme, the Trustees will disinvest from the portfolio set out on the previous page. At present the Trustees have a policy of disinvesting from the BlackRock Dynamic Diversified Growth Fund in order to meet regular cashflow requirements. Once the allocation to the BlackRock Fund reaches zero, the Threadneedle Dynamic Real Return Fund and the Ruffer Absolute Return Fund will be used for disinvestment requirements. The Trustees will consider from time to time whether it is appropriate for other sources of funds to also be used.

Appendix 2 Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters

Policy on financially material considerations

The Trustees believe that Environmental, Social and Governance ("ESG") factors are financially material – that is, they have the potential to impact the value of the Scheme's investments over the lifetime of the Scheme. The Trustees therefore have a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.

The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes. A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below.

Passively managed equity and corporate bond funds

The Trustees believe that ESG issues have the potential to be financially material to the risk-adjusted returns achieved by the Scheme's passive equities and corporate bonds.

The Trustees accept that the fund managers must invest in accordance with the specified index and therefore may not be able to select, retain or realise investments based on ESG related risks and opportunities. The Trustees therefore require that the fund managers take into account ESG considerations by engaging companies and by exercising voting rights. However, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Passively managed gilt and cash funds

The Trustee does not believe there is significant scope for ESG issues to improve risk-adjusted returns within the Scheme's passive gilt and cash holdings.

Actively managed funds

The Trustees believe that ESG factors have the potential to be financially material to the risk-adjusted returns achieved by the Scheme's diversified growth fund and multi-asset credit holdings.

These funds are actively managed and aim to achieve their outperformance targets with low volatility and the managers are expected to therefore consider all financially material considerations, including but not limited to ESG factors, when managing the funds.

When reviewing and selecting managers, if all other considerations are equal, then the fund manager with the better ESG credentials will be selected to manage the Scheme's assets. However, a fund manager's excellence in this area will not necessarily take precedence over other factors, including (but not limited to) historical performance or fees.

Policy on the exercise of voting rights and engagement activities

The Trustees believe that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns.

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the fund managers who are all signatories to the UK Stewardship Code or equivalent.

Social, environmental and ethical considerations are set by each of the fund managers, who also exercise the rights attaching to the investments in any pooled funds. Each of the Scheme's fund managers will ultimately act in the best interest of the Scheme's assets to maximise returns for a given level of risk.

The Trustees expect the fund managers to engage with companies in relation to ESG matters. When selecting and reviewing their fund managers, where appropriate and applicable, the Trustees will consider the fund managers' policies on stewardship and engagement, and how those policies have been implemented.

Policy for taking into account non-financial matters

The Trustees do not take into account the Scheme members' and beneficiaries' views on ethical considerations, social and environmental impact, or present and future quality of life of members and beneficiaries of the Scheme in the selection, retention and realisation of investments.

However, the Trustees do expect their fund managers to select investments that would have a beneficial impact on each of the above factors, all other considerations being equal.