W Lucy Pension Scheme

Statement of Investment Principles

Finalised and accepted by the Trustees on 11 September 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 2010.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

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.

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 Scheme's Statement of Investment Strategy. 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 have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, 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.
- to take account of the long-term risks when making investment decisions.

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 Scheme's Statement of Investment Strategy.

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 Scheme's Statement of Investment Strategy.

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 Scheme's Statement of Investment Strategy 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. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

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. Currency hedging is employed to manage the impact of exchange rate fluctuations.

6.11 Governance risk Each fund manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.

6.12 ESG/Climate risk The Trustees have considered long-term financial risks to the Scheme and believe ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

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.

8.3 The Trustees are also aware that at the end of the Scheme's life, the value of the remaining assets might exceed the value of the remaining liabilities. In which case, the Trustees will act in accordance with the Scheme's Trustee Deed and Rules when exercising the complete discharge of the Scheme assets and liabilities.

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 the Appendix to this statement.

10 Policy on arrangements with fund managers

Incentivising alignment with the Trustees' investment polices

10.1 Prior to appointing a fund manager, the Trustees discuss the fund manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.

10.2 When appointing a fund manager, in addition to considering the fund manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

10.3 The Trustees carry out a strategy review as required, where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustees monitor the fund managers' approach to ESG and climate related risks on an annual basis.

10.4 In the event that a fund manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.5 The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees acknowledge this in their fund management arrangements.

10.6 When considering the management of objectives for a fund manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the fund manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.7 The Trustees expect fund managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the fund managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

10.8 The Trustees monitor the performance of their fund managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.

10.9 The Scheme invests exclusively in pooled funds. The fund manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the fund manager, they receive more and as values fall they receive less.

10.10 The Trustees believe that this fee structure enables the fund manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.11 The Trustees ask the Scheme's investment consultant to assess if the fund management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered periodically.

Portfolio turnover costs

10.12 The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the half-yearly investment monitoring process.

10.13 During the fund manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the fund manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

Duration of arrangement with fund manager

10.14 For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the fund managers.

10.15 The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the fund managers, and the specific funds used, is assessed.

11 Agreement

11.1 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.

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

1. The balance between different kinds of investment

The Scheme has a long-term strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Portfolio	Asset class	Target Allocation (%)
Return-seeking portfolio	Equity*	62.2%
	Absolute and Target Return Funds	10.6%
Protection portfolio	Government and Corporate Bonds	27.2%
Total		**100%**

*Within Equity there are a number of funds that make up the allocation. The split between these will be assessed from time to time.

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. As the Scheme liabilities increase in maturity (i.e. as the proportion of liabilities in payment increases), the Trustees expect to gradually increase the allocation to protection assets.

2. Investments and disinvestments

Investments and disinvestments from the non-insured invested assets are often made so as to move the actual asset allocation towards the long-term target. However, the Trustees remain mindful of the transaction costs and liquidity profile associated with each fund held. Where appropriate, disinvestments can be made in a different way.

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

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, a period expected to be greater than ten years. The Trustees therefore have a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.

The Trustees have elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustees take those factors into account in the selection, retention and realisation of investments as follows:

Selection of investments: Assess the fund managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

Retention of investments: The Trustees will consider the results of their annual ESG monitoring report with regards to retaining funds and their managers.

Realisation of investments: The Trustees will request information from fund managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustees will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of 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 Trustees do 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

The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the fund managers on the Trustees' behalf. In doing so, the Trustees expect that the fund managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustees will monitor and engage with the fund managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

Fund managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the fund managers. Where possible and appropriate, the Trustees will engage with their fund managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

Policy on engagement activities

The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their fund managers they provide their fund managers with a benchmark they expect the fund managers to either follow or outperform. The fund manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the fund management industry to help manage these risks.

The Trustees consider it to be a part of their fund managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustees also consider it to be part of their fund managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should a fund manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's fund managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the fund manager recommendations they make are free from conflict of interest.

The Trustees expect all fund managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the fund manager and conflicts of interest between the Trustees/fund manager and the investee companies.

In selecting and reviewing their fund managers, where appropriate, the Trustees will consider fund managers' policies on engagement and how these 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.