

Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund ("The Fund")

Statement of Investment Principles – February 2018

1. Introduction

TCG Southern Trustees Limited, the Trustee of the Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund ("the Trustee") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement seeks to take into account the principles underlying the Myners Code of Best Practice for pension scheme investment, which has been endorsed by the Government and the Pensions and Lifetime Savings Association. The Statement also seeks to take into account the Investment Governance Group ('IGG') principles for defined benefit pension schemes.

The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments.

The Fund operates for the purpose of providing retirement and death benefits to eligible participants and beneficiaries in a defined benefit framework.

In preparing this Statement, the Trustee has consulted the Fund's Principal Employer, Co-operative Group Limited ("the Group"), to ascertain whether there are any material issues the Trustee should be aware of in agreeing the investment arrangements. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The investment responsibilities and powers of the Trustee are governed by the Fund's Trust Deed and Rules (a copy of which is available on request) and relevant legislation. According to the law, the Trustee has ultimate power and responsibility for the Fund's investment arrangements.

The Trustee has established an Investment Committee to focus on investment matters. While the Trustee retains direct responsibility for setting investment objectives, setting the Fund's strategic benchmark and manager structure, it makes these decisions after considering recommendations from the Investment Committee. The role of the Investment Committee is set out in the Appendix.

The Trustee has also established a Manager Review Committee (in conjunction with other Co-operative Group pension schemes) to focus on and review the Fund's investment managers. The Manager Review Committee is an advisory body that may make recommendations to the Investment Committee or Trustee regarding investment manager-related matters

2. *Process for Choosing Investments*

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Consider the broad level of risk consistent with meeting the objectives set; and
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the Trustee's risk tolerance.

The Trustee has adopted a set of investment beliefs, and aims to choose investments and construct a portfolio of investments that is consistent with these beliefs. In considering the appropriate investments for the Fund, the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice. Where matters described in this Statement may affect the Fund's funding policy, input has also been obtained from the Fund Actuary. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. *Investment Objectives*

The Trustee recognises that its primary objective is to invest the Fund's assets in the best financial interests of the members and beneficiaries of the Fund.

The investment objectives as agreed by the Trustee in consultation with the Group are set out below:

a) Primary Return Target

To target sufficient return to support the Technical Provisions and the Recovery Plan agreed as part of the triennial valuation

b) Secondary Return Target

To target sufficient return to support a "low risk" or "self-sufficient" measure of liabilities over a long period of time

4. *Risk Management and Measurement*

The Trustee recognises that a number of risks are involved in the investment of the Fund's assets. The Trustee will continue to monitor the key risks, principally:

- **Solvency risk and mismatching risk** – addressed through setting appropriate investment objectives as part of the triennial actuarial valuation, taking into account the funding objectives.

- **Manager risk** – addressed through the diversification of the Fund’s assets across a range of managers with different styles and, monitoring of performance, and review of material changes at / within investment management companies.
- **Liquidity risk** - the monthly benefit and expenses outgo is monitored to ensure that sufficient cash balances are available. Investment in illiquid assets is kept to an appropriate level, and a prudent approach is taken to maintaining suitable levels of cash to support investment in leveraged pooled funds within the liability hedging arrangement.
- **Currency risk** – addressed through hedging approximately 75% of the Fund’s developed overseas currency exposure within equities, and all of the Fund’s overseas currency exposure within illiquid and investment grade credit, to Sterling (as far as practically possible).
- **Counterparty risk** – where the Fund enters into swap transactions, via pooled funds, counterparty diversification and the collateralisation process help mitigate this risk, both of which will be implemented by the investment manager.
- **Custody risk** – the safe custody of the assets is delegated to professional custodians via the use of pooled funds, with each manager appointing a custodian and being responsible for monitoring the custodian’s activities. The Trustee has considered the risk relating to this.
- **Sponsor risk** – addressed by regular assessments of the ability and willingness of the Group to support the continuation of the Fund and to make good any deficit.
- **Leverage risk** – addressed by regular review of the size, amount and nature of any leveraged investments made by the Fund’s investment managers and monitoring of potential collateral requirements.
- **Credit risk** – addressed through holding a diverse range of credit investments across a variety of issuers and sectors, with exposure limits in place, through having in place investment managers who assess the creditworthiness of the debt instruments in which the Fund invests and through appropriate limits on credit quality.
- **Inappropriate investments** – addressed through the Trustee’s policy in relation to the range of assets held and the pooled funds invested in.

Other risks are addressed through the Investment Restrictions or within the individual investment manager and custodian agreements.

5. Portfolio Construction

It is the Trustee’s policy to consider a full range of asset classes either directly or via pooled funds which utilise a wide range of asset classes and investment management techniques, including but not limited to:

- Equities (UK and overseas, including emerging markets)
- Illiquid Credit
- Corporate Bonds
- Liability Driven Investments (“LDI”)

The Trustee has adopted the following control framework in structuring the Fund’s investments:

- There is a role for both active and passive management. Passive management will be used for one of a number of reasons, namely:
 - To diversify risk;
 - To invest in markets deemed efficient and where the scope for active management to add value is limited; and
 - As a temporary home, if so required, pending investment with an active manager.
- To help diversify manager specific risk, multiple manager appointments are preferred where practical (e.g. corporate bonds and illiquid credit).
- At the total Fund level and within individual manager appointments investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer.
- Investment in illiquid investments, such as illiquid credit assets, may be held in limited quantities. The proportion of such investments will be monitored at a total Fund level.
- Investment in derivatives is permitted as agreed on a manager by manager basis as long as they contribute to a reduction in risk or facilitate efficient portfolio management. The use of derivatives and appropriate restrictions in place are considered when selecting and monitoring pooled fund investments.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), the Trustee will look to ensure that the assets of the Fund are predominantly invested on regulated markets.
- No investment in securities issued by the Fund’s Sponsoring Employer or affiliated companies will be made directly (i.e. this excludes any such securities held within a pooled fund in which the Fund invests).
- Borrowing is not permitted except to cover short term liquidity requirements. Leverage may be used in the context of allocations to risk reducing LDI assets.

6. **Investment Strategy**

The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the liabilities. Given the ongoing commitment of the Group to the Fund, a degree of mismatching risk can be accepted on the basis that it is also acceptable to the Group.

The Trustee has decided to set an investment strategy, which is expected over the medium term to produce investment returns to meet the investment objectives, while limiting the risk inherent in the mismatch between assets and liabilities to an acceptable level to the Trustee and to the Group.

The Investment Adviser provided advice on an appropriate investment strategy with input from the Fund Actuary and the Group on the acceptable degree of mismatch between the assets and liabilities.

At the time of writing, the Trustee is in the process of implementing a series of changes to the Fund's investment arrangements. The rationale for these changes is to continue to aim to meet the investment objectives as set out in Section 3, with lower costs and more transparency / flexibility than the previous arrangements.

The target investment strategy as agreed by the Trustee is shown in the table below. (This target strategy is subject to change over time and the Fund's actual asset allocation is likely to be different to the target allocation set out for the next few years as the investment strategy is implemented.)

Asset Class	Allocation %
Passive Equity	14.0
Illiquid Credit	10.0
Corporate Bonds	32.5
Liability Driven Investments	43.5
Total	100.0

The Fund is in the process of funding the illiquid credit mandates. As such, the above should be seen as the target that the Trustee is working toward.

The Trustee has agreed that rebalancing should occur on a pragmatic basis, whereby cashflows either into or out of the Fund will be used to broadly maintain the asset allocation in line with the target investment strategy noted above (albeit cashflows into / out of illiquid credit assets will be opportunity dependent).

In addition, the overall asset allocation will be monitored via the regular performance reports provided by the investment adviser, who will propose further rebalancing if deemed appropriate (particularly if the portfolio's long term expected return moves sufficiently far away from the required level).

7. *Expected Return*

The expected excess return from the Fund's investment policy is 1.2% p.a. above a gilt based measure of the liabilities. The Trustee believes that the expected excess return is sufficient to meet the investment objectives outlined.

8. *Day-to-Day Management of the Assets*

In compliance with the Financial Services and Markets Act 2000, day to day management of the assets is delegated to professional Investment Managers who are all regulated by the Financial Conduct Authority ("FCA") or the relevant authority in the domicile country. The Investment Managers have full discretion to buy and sell investments on behalf of the Fund subject to the terms and conditions contained with the documentation governing their appointment.

9. *Realisation of Investments*

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

The Trustee monitors the allocation between the appointed managers and between asset classes as appropriate. This includes consideration of the split within the broad asset classes shown above and the selection, monitoring and termination of the underlying investment managers.

10. *Additional Assets*

The Trustee is responsible for the investment arrangements of Additional Voluntary Contributions ("AVCs") paid by members in the past and various immediate annuity contracts. The Trustee reviews the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability.

11. *Socially Responsible Investment and Corporate Governance*

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. Given the pooled nature of the Fund's investments, the Trustee cannot directly influence the policies and practices of companies in which the pooled funds invest. As such, the Trustee has given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Fund's investments.

Similarly, the Fund's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Codes and the UK Stewardship Code.


Equity managers who are registered in the UK are expected to report on their adherence to the UK Stewardship code on an annual basis.

12. Professional Investment Advice

The Trustee has appointed Mercer Limited to provide advice on all aspects of investments relating to the Fund.

13. Review of this Statement

The Trustee will review this Statement annually and without delay after any significant change in investment policy. The Investment Advisers will provide the advice needed to allow the Trustee to review and update this Statement as required. In addition, no change will be made to the Statement unless the proposed changes to investment policy have been approved by the Trustee and recorded in the minutes of a Trustee meeting.

Signed:  _____ Date: 13/3/18

Name: CPJ MERRIN
INDEPENDENT TRUSTEE SERVICES LTD.

Signed:  _____ Date: 13-3-2018

Name: TOM TAYLOR

Signed on behalf of TCG Southern Trustees Limited

Appendix: Division of Duties and Responsibilities

Duties and Responsibilities	Executed By
<ul style="list-style-type: none"> ▪ Overall responsibility for the Fund's investments. ▪ Define the terms of appointment of the Investment Committee. ▪ Appoint the members of Investment Committee. 	The Trustee
<ul style="list-style-type: none"> ▪ Recommend the Investment Adviser to the Trustee. ▪ Recommend investment objectives to the Trustee. ▪ Recommend strategic framework to the Trustee. ▪ Monitor the Investment Adviser. ▪ Make day-to-day decisions relevant to the operation of the Fund's investment strategy. 	The Investment Committee
<ul style="list-style-type: none"> ▪ Monitor appointed Investment Managers and other service providers 	The Manager Review Committee
<ul style="list-style-type: none"> ▪ Perform asset liability modelling exercises, as required. ▪ Advise on the strategic framework. ▪ Advise on the selection of the Investment Managers. ▪ Monitor the Investment Managers, providing both qualitative and quantitative input to the Investment Committee. ▪ Advise on the implementation of mandates. ▪ Advise on the Statement of Investment Principles. 	The Investment Adviser
<ul style="list-style-type: none"> ▪ Operate within the conditions set down by the Investment Management Agreement. ▪ Select individual investments with regard to their suitability and diversification. ▪ Supply the Trustee with sufficient information each quarter to allow the review of activity. 	The Investment Managers