

United Norwest Co-operatives Employees' Pension Fund ("the Fund")

Statement of Investment Principles – June 2018

1. *Introduction*

TCG Northern Trustees Limited, the Trustee of the United Norwest Co-operatives Employees' Pension 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 for inspection on request) and relevant legislation.

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 investment strategy and manager structure, it makes these decisions after considering recommendations from the Investment Committee.

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
- 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 investment objectives of the Fund are to achieve an overall rate of return that will ensure:

- Sufficient resources are available to meet all liabilities as they fall due; and
- Investment returns are maximised at an acceptable level of risk.

The Trustee believes the investment objectives and the resultant investment strategy is consistent with the actuarial valuation methodology and assumptions used by the Fund Actuary.

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. Mismatching risk is also partially addressed through investing in a Liability Driven Investment portfolio.

- **Manager risk** - addressed through the diversification of the Fund's assets across a range of managers and monitoring of managers.
- **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.
- **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 either directly or 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 amount and nature of any leveraged investments made by the Fund's investment managers.
- **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.
- **Hedging Related Risks** – management of the majority of these risks is delegated to the Fund's liability hedging manager. However, the Trustee regularly reviews a range of liability hedging risks within quarterly reporting discussions with professional advisors and other analysis.
- **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 within certain actively managed mandates (e.g. illiquid credit) are preferred where practical.
- At 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 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 Principal 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, or as part of a transition to maintain market exposure.

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.

The investment strategy as agreed by the Trustee is shown in the table below.

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

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 expects that future investment returns will at least meet the rate of return required to fund the liabilities over the medium to long term, as assumed in the ongoing actuarial valuation.

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 within 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 vast majority of the Fund's investments, the Trustee does not have a direct influence on the policies and practices of companies in which the pooled fund invests. 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.

The Fund's equity manager, who is registered in the UK, is 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 at least once every three years and without delay after any significant change in investment policy. The Investment Adviser 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: 21/06/18

Name: P. SILL

Signed:  Date: 21/06/18

Name: EDWARD MANNING INVESTMENT TRUSTEE SERVICES LTD.

For and on behalf of TCG Northern 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.	The Trustee

<ul style="list-style-type: none"> ▪ Appoint the members of Investment Committee. 	
<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. 	<p>The Investment Committee</p>
<ul style="list-style-type: none"> ▪ Monitor appointed Investment Managers and other service providers 	<p>The Manager Review Committee</p>
<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. 	<p>The Investment Adviser</p>
<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. 	<p>The Investment Managers</p>