The SJ Dixon & Sons (Holdings) Limited Pension & Life Assurance Scheme

Statement of Investment Principles

May 2023

Contents

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles ("SIP")?

This SIP sets out the policy of the Trustees on matters governing decisions about the investments of The SJ Dixon & Sons (Holdings) Limited Pension & Life Assurance Scheme (the "Scheme").

The Scheme is made Defined Benefit ("DB") in nature and was closed to new entrants with effect from 31 December 2006. The Scheme also has a legacy Additional Voluntary Contribution ("AVC") facility.

The Scheme is registered with Her Majesty's Revenue & Customs ("HMRC") for the purpose of the Finance Act 2004.

1.2. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 ("the Act"), and all subsequent legislation, regulations and guidance from the Pensions Regulator applying to UK pension schemes.

1.3. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Advisory ("Quantum"), the Trustees' investment adviser, and consulting S J Dixon & Son (Holdings) Limited (the "Sponsoring Employer") as required by the Act and subsequently by the regulations. Quantum has the knowledge and experience required under the regulations to provide professional advice on the management of the Scheme's investments.

2. Investment objectives and strategy

2.1. Investment policy

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed.

The Trustees are aware of the need to invest assets in the best and sole interest of the members and that the powers of investment must be exercised in a manner which supports the security, quality, liquidity and profitability of the Scheme as a whole.

The Trustees recognise that the assets of the Scheme must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must, in any event, be kept to a prudent level.

2.2. Investment objective

The Trustees, with the help of their advisers and in consultation with the Sponsoring Employer, set the current investment strategy following a consideration of their objectives and other related matters during October 2022.

The Trustees noted the need to invest in a manner which helps ensure that the benefits promised to members are provided. Over the long term, this requires that a rate of return is achieved which supports the long-term funding plan which has been discussed with the Sponsoring Employer. In the short term, it means managing the volatility of assets relative to the value of liabilities, which have bond-like characteristics.

2.3. What risks were considered and how are they managed?

The Trustees' primary concern is to act in the financial interests of the Scheme's members. As such, the primary risk is the inability of the Scheme to meet member benefit payments as they fall due.

In order to achieve their objectives, the Trustees recognise the need to invest in both return seeking assets and matching assets (see 2.4). The Trustees identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that an investment manager will not meet its targets;
- the risk that the value of liabilities may increase due to changes in actual and expected inflation and interest rates;
- the risk of mis-match between the value and timing of the Scheme's income and outgoings;
- the risk of a shortfall in the liquid assets held by the Scheme relative to its immediate liabilities;
- the risk that the performance of any single investment within the Scheme assets may disproportionately affect the ability of the Scheme to meet its overall investment objectives; and
- the risk of misappropriation, unauthorised use or mis-delivery of Scheme assets.

The Trustees recognise these different types of risk and seek to minimise them as far as possible by the use of regular monitoring of investment performance; by a deliberate policy of diversification; by considering the timing of future payments; and by monitoring the appropriateness of the prevailing strategy against the Scheme's objectives.

2.4. What is the investment strategy?

The investment strategy uses two key types of assets:

- "Matching assets": these exhibit characteristics similar to those of the Scheme's liabilities. Typically, matching assets are low risk fixed income investments and the return from them is similar to the return on UK government bonds (referred to as the 'minimum risk' return).
- "Return seeking assets": these target a rate of return in excess of the minimum risk return. Typically, these are equities or a diversified pool of other non-matching assets.

Following the investment review in 2022, a strategic asset allocation was agreed. The strategy aims to deliver an appropriate mix of investments, which support the Scheme's investment objectives. Details of this are set out in Appendix 1.

The Trustees have agreed the appropriateness of the asset allocation benchmarks, performance benchmarks and the various controls adopted by the incumbent managers in managing each fund in which Scheme assets are invested.

The Trustees also consider non-financial factors, when monitoring and selecting their investments. Further detail on these policies is provided in section 5.2.

2.5. Fund managers, style and target returns

The funds in which the Scheme invests are pooled funds, which the Trustees believe are appropriate given the size and nature of the Scheme. Details of the funds, managers, benchmarks and investment objectives used by the Scheme can be found in Appendix 1.

2.6. Re-balancing

The Trustee reviews the Scheme's asset allocation, relative to the target weights on an annual basis and considers whether any re-balancing action should be undertaken.

3. Additional Voluntary Contributions (AVCs)

3.1. What is the strategy for AVCs?

Active members are able to supplement their pension accrual by paying AVCs.

The Trustees periodically review the suitability and performance of these investments to ensure they remain appropriate to the members' needs.

The AVC assets are currently invested with LGIM.

4. Appointment of investment managers

4.1. How many investment managers are there?

The Scheme's assets are held directly with LGIM and BNY Mellon.

LGIM were appointed in June 2007 and BNY Mellon/Newton in March 2009. The relationship with the investment managers is open ended.

4.2. What formal agreements are there with the investment managers?

The Trustees select investment managers and funds which are appropriate to implement the investment strategy.

The Trustees have signed the appropriate policy documents, agreements and application forms with the investment managers, setting out in detail the terms on which the portfolio is managed, including the need for suitable and appropriately diversified investments.

The Trustees keep the appointment of all investment managers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Scheme's investment strategy.

4.3. What are the investment managers' responsibilities?

The investment managers are responsible for the day-to-day management of the investments and are responsible for appointing custodians, if required.

The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

The performance requirements for the managers/funds are detailed in Appendix 1.

4.4. Custodians and administrators

The Scheme's investments are accessed through life policies. Therefore, there is no need for the Trustee to formally appoint a custodian as the investment comprises policy units rather than the underlying stocks and shares.

LGIM have appointed HSBC and Citibank for the safe custody of assets and BNY Mellon have appointed The Bank of New York Mellon. Custody of assets is held in the Scheme's name.

5. Other matters

5.1. What is the Trustees' policy on the realisation of investments?

The investment managers have discretion over the timing of realisation of investments within the pooled vehicles held by the Scheme and in considerations relating to the liquidity of investments.

Under the circumstances where the Scheme experiences negative cash flow, the Trustees and their advisers will decide on the amount of cash required for benefit payments and other outgoings and will inform the investment managers of any liquidity requirements.

In the absence of any strong conviction concerning the future movement of markets, assets will be disinvested to rebalance the Scheme's assets taking into account the asset allocation outlined in Appendix 1; and the costs and risks associated with any rebalancing.

5.2. Financially material considerations, non-financial matters and stewardship policies

This section sets out the Trustees' policies on financially material considerations, non-financial matters and stewardship.

If the Trustees feel that the fund managers are not assessing financial and non-financial performance adequately, or engaging with the companies they are investing in, they will use these factors in deciding whether to retain or terminate a manager.

The Trustees do not offer explicit remuneration to the Scheme's investment managers for considering these factors specifically.

5.2.1. Financially material considerations

The Trustees acknowledge the potential impact upon the Scheme's investments and members arising from financially material matters. The Trustees define these as including, but not limited to ESG matters (including but not limited to climate change).

With specific regard to ESG factors, the Trustees consider how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the evaluation of ESG factors and have not established any restrictions on the appointed investment managers.

The Trustees periodically review the ESG policies and activities of their investment managers in the following ways:

- ESG reporting and advice from Quantum;
- As part of the preparation of the Scheme's annual implementation statement; and
- Reviewing their investment managers' publicly available ESG related publications.

5.2.2 Stewardship policy

The Trustees are aware of the constraints that they face in terms of influencing change due to the size and nature of the Scheme's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustees, with the help of their investment advisers, consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustees have chosen to delegate their voting and engagement responsibilities to the appointed investment managers, and they monitor the stewardship policies of these managers annually. The Trustees expect the investment managers to use their rights (including voting rights) wholly in the best economic interests of their investors (including the Scheme's members).

The Trustee reviews their investment manager's policies on the exercise of voting rights and monitor their engagement practice and proxy voting activity via their annual reports.

5.2.3 Non-financial matters

The Trustee considers non-financial factors (where members have been forthcoming with their views) when selecting, retaining and realising investments, however the Trustee does not employ a formal policy in relation to this when selecting, retaining and realising investments.

5.3. How are various parties who are involved in the investment of the Scheme's assets remunerated?

Quantum Advisory is remunerated on a fixed fee or time-cost fee basis, with budgets agreed in advance for ad hoc project work whenever possible.

The Scheme invests in pooled funds. The Trustees note that the investment strategy and decisions of the fund managers cannot be tailored to the Trustees' policies and the managers are not remunerated directly on this basis. However, the Trustees, with the help of Quantum, set the investment strategy for the Scheme and select appropriate managers and funds to implement the strategy.

The Trustees do not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustees do, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustees consider the fees and charges associated with each investment before investing.

The investment managers are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total value of the Scheme's funds they hold under management.

In addition, the fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The Trustees obtain an annual statement from the investment managers setting out all the costs of the investments of the Scheme.

5.4. Direct Investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly.

The Trustees' policy is to review their direct investments (if any) and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustees will obtain written advice from the Scheme's investment adviser. If the Trustees believe that an investment is no longer suitable for the Scheme, it will withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice from the Scheme's investment adviser will consider the suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

5.5. Do the Trustees take any investment decisions of their own?

The Trustees are responsible for the investment of the Scheme's assets. The Trustees take some decisions and delegate others.

When deciding which decisions to take, and which to delegate, the Trustees take into account whether they have the appropriate training and expertise in order to make an informed decision.

The Trustees have established the following decision-making structure:

Trustees

- Set structures and processes for carrying out their role.
- Agree structure for implementing investment strategy.
- Select and monitor planned asset allocation.
- Select and monitor investment advisors and fund managers.
- Select and monitor direct investments.
- Prepare and maintain the SIP.

Investment adviser

- Advises on the Scheme's assets, including implementation.
- Advises on this SIP.
- Provides required training.

Investment managers

- Operate within the written contracts and agreements.
- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Ensure the suitability of the chosen benchmark for the respective investment vehicle.

5.6. Conflicts of interest

The Trustees consider any potential and actual conflicts of interest (subject to reasonable levels of immateriality) at the start of each Trustees' meeting and document these in the minutes.

5.7. Capital structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

6. Review

6.1. How often are investments reviewed?

Strategy reviews for the Scheme are undertaken periodically. Typically, a review will occur alongside triennial actuarial valuations; but more frequent reviews can occur in light of a material change of circumstances. Any change in investment strategy may necessitate a change in investment managers, regardless of the underlying performance of the funds.

Investment return experience and the performance of individual funds are reviewed with assistance from Quantum annually. Managers are reviewed against their agreed performance benchmarks and targets over both short-term and long-term time periods, to ensure they remain appropriate to implement the investment strategy for the Scheme.

6.2. How do the Trustees monitor portfolio turnover and costs?

The Trustees have delegated the selection of holdings to the appointed investment managers. The Trustees receive an annual report from the investment managers setting out portfolio turnover and the associated costs.

The Trustees have not set a specific portfolio turnover target for each investment manager and recognise that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

The Trustees will compare the annual turnover and associated costs for each fund with previous years to ensure each investment manager's process and philosophy remain consistent.

6.3 How often is this SIP reviewed?

The Trustees will review this SIP periodically for good governance and to ensure their policies remain appropriate and are being adhered to. The Trustees may also review the SIP following specific events, so as to ensure its ongoing appropriateness. Such events may include, but are not limited to:

- Material change in the Scheme's circumstances;
- Material change in the Trustees' objectives;
- Material change in the Sponsoring Employer's circumstances; and
- Material developments within the wider market environment.

Reviews of the SIP will occur no less frequently than every three years, and without delay after any significant change in investment policy. However, it is the Trustees expectation that reviews will occur more frequently than this.

Any change to this SIP will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in, and practical experience of, financial matters, and to have the appropriate knowledge and experience of the management of pension scheme investments; and consulting with the Sponsoring Employer.

Agreed by the Trustee of The SJ Dixon & Sons (Holdings) Limited Pension & Life Assurance Scheme in May 2023.

Appendix 1 – Managers, asset allocation & fund details

Managers and asset allocation

The following table shows the strategic asset allocation for the Scheme.

Asset class	Manager	Fund	Asset allocation (%)
Return seeking assets			**10.0**
Equity	BNY Mellon	UK Income Fund	10.0
Matching assets			**90.0**
Bonds	BNY Mellon	Long Gilt Fund	2.5
Bonds	LGIM	2055 Gilt Fund	2.5
Bonds	LGIM	Over 5 Year Index Linked Gilt Index Fund	14.0
Bonds	LGIM	2035 Index Linked Gilt Fund	31.0
Bonds	LGIM	Active Corporate Bond Over 10 Year Fund	40.0
Total			**100.0**

Managers and fund details

The table below shows the benchmarks and outperformance targets for each fund the Scheme is invested in. Performance is reviewed periodically, with assistance from the Scheme's investment adviser as required.

Asset class	Manager	Fund	Benchmark	Objective / Outperformance target	Annual Management Charge (%)
Return seeking assets					
Equity	BNY Mellon	UK Income Fund	FTSE All-Share TR Index	The Fund aims to achieve income over an annual period together with capital growth over the long term (5 years or more). The performance target is to outperform by benchmark by 2% p.a. over rolling five-year periods.	0.50
Matching assets					
Bonds	BNY Mellon	Long Gilt Fund	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	To achieve income together with the potential for capital growth over the medium term (3-5 years). The Fund aims to outperform its benchmark over rolling five-year periods.	0.20
Bonds	LGIM	2055 Gilt Fund	Treasury 4.25% 2055 Gilt	To track the performance of the Treasury 4.25% 2055 Gilt to within +/-0.25% p.a. for two years out of three	0.10
Bonds	LGIM	Over 5 Year Index Linked Gilt Index Fund	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index	To track the performance of the benchmark to within +/-0.25% p.a. for two years out of three.	0.10
Bonds	LGIM	2035 Index Linked Gilt Fund	Treasury 2% 2035 Index-Linked Gilt	To track the performance of the benchmark to within +/-0.25% p.a. for two years out of three.	0.10
Bonds	LGIM	Active Corporate Bond – Over 10 Year Fund	Markit iBoxx £ Non-Gilts Over 10 Years Index	The fund aims to exceed the benchmark by 0.75% p.a. (before fees) over a three-year rolling period.	0.25