Central England Co-operative Limited Pension Scheme

Statement of Investment Principles

Investment objective

The Trustee invests the assets of the Central England Co-operative Limited Pension Scheme (the "Scheme") with the aim of ensuring that all members' accrued benefits can be paid. The Scheme's funding target is specified in the Statement of Funding Principles. The Scheme's funding position will be reviewed annually to assess the position relative to the funding target and whether the investment policy remains appropriate to the Scheme's circumstances.

The Trustee takes the Myners Principles into account when making decisions about the Scheme's investment arrangements.

The Scheme's present investment objective is to achieve a return of around 3.1% per annum above the return on UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Scheme's liabilities).

Investment strategy

The Scheme's present strategy is to invest according to the following broad asset allocation:

Asset Class	Proportion %	Control Range %	Expected Return[1] (relative to fixed interest gilts) %
"Return Seeking"		63.5-78.5	
Synthetic Developed Equity	6.0[2]		4.0
Diversified Growth	17.0		3.5
Direct Lending	9.0		4.0
Global Real Estate Secondaries	5.0		6.0
Short Dated Contractual Income	16.0		2.5[3]
Long Dated Contractual Income	8.0		2.5
Semi-Liquid Credit	10.0		3.5
"Liability Matching"		21.5-36.5	
Liability Driven Investment[4]	29.0		0.0
Other Asset Classes[5]		0.0-10.0	
TOTAL	100.0		3.1

1) 10 year assumptions as at 31 December 2017.
2) Synthetic equity exposure is targeting 10% of total Scheme assets. The 6% allocation above includes an allocation to the Insight liquidity fund range to act as a collateral buffer for any deleveraging event.
3) After allowing for expected defaults and downgrades.
4) The liability driven investment mandate is in place to hedge a proportion of interest rate and inflation risk in the liabilities and not a target weight of assets and hence the relatively wide control range that is in place.
5) Could be return seeking or liability matching.

The expected returns shown in the above table represent long-term expectations of asset classes as a whole. Where the Trustee has appointed "active" investment managers, their objective is to outperform the market average. Short-term returns in some asset classes may exhibit considerable variability.

The Liability Driven Investment allocation seeks to hedge c.65% of the interest rate and inflation risks inherent in the Scheme liabilities on the self-sufficiency basis (gilts +0.5%). The allocation is for risk management purposes and utilises leverage for capital efficiency purposes. This means that the LDI allocation as a proportion of Scheme assets can vary considerably over time but the hedge ratio (c.65%) is expected to stay relatively constant.

The above investment strategy was derived from careful consideration of the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of contributions required to fund the Scheme, and also the strength of the Society's covenant. The Trustee considered the merits of a range of asset classes, including various "alternative assets" (e.g. Direct Lending etc).

The Scheme has a Central Asset Reserve ("CAR") in place. The characteristics of the CAR have also been taken into account by the Trustee in determining the Scheme's investment strategy.

The Trustee recognises that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities. The assets of the Scheme consist predominantly of investments admitted to trading on regulated markets.

Investment mandates and Environmental Social and Governance ("ESG") Considerations

The Trustee has appointed several investment managers to manage the assets of the Scheme as listed in the Investment Implementation Document. The investment managers are all regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. This delegation includes decisions about:

- Realisation of investments;
- Social, environmental and ethical considerations in the selection, retention and realisation of investments;
- The exercise of rights (including voting rights) attaching to the investments.

The Trustee takes investment managers' policies in the above respects into account when selecting and monitoring managers. The investment managers are expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

The Trustee has in place an investment pro-forma which is utilised when considering the appointment of new investment managers for the Scheme. Investment managers are requested to provide their policies regarding ESG to the Trustee. While the Trustee do not have ESG restrictions in place, the Trustee make considerations on the investment managers ESG policy in place on a case by case basis when investment funds are being considered for the Scheme.

In 2010 the Financial Reporting Council set out a series of seven principles known as the Stewardship Code to provide a framework for good practice for institutional investors who directly manage assets. The Trustee is supportive of the Stewardship Code and will monitor their investment managers' compliance with the code where applicable.

The investment manager's remuneration is based upon a percentage value of the assets under management. The fees have been negotiated to be competitive. The Scheme's mandates for Direct Lending, Global Real Estate Secondaries and investment with ASI GARS are also subject to a performance related fee element.

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager. The custodian provides safekeeping for the assets, and performs all associated administrative duties such as the collection of dividends.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	• The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Joint Working Party/Trustee meeting. • The Scheme's investment managers are invited, in person, to present to the Trustee on their performance, strategy and risk exposures. This is typically on an annual basis but may be more frequently if issues arise.	• There are significant changes made to the investment strategy. • The risk levels within the assets managed by the investment managers have increased to a level above and beyond the expectations of the Trustee. • Underperformance vs the performance objective over the period that this objective applies.

Environmental, Social, Corporate Governance factors and the exercising of rights	• The investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. • The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.	• The manager has not acted in accordance with their policies and frameworks. • The manager's policies are not in line with the policies of the Trustee in this area.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee may review the relevant investment manager's appointment.

Employer-related investments

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Scheme's value. The Trustee will monitor this annually.

Direct investments

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

Governance

The Trustee of the Scheme make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustees' investment advisers, Isio Group Limited, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience. The investment adviser's remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Scheme.

The Trustee have established a Joint Working Party to monitor the operation of the Scheme's investment strategy, make day-to-day recommendations to the Trustee as required for the smooth running of the Scheme, and to make recommendations to the Trustee on overall strategy. This structure has been established in order to ensure that investment matters and decisions relating to the Scheme can be made and implemented in an efficient manner.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring employer and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in investment policy.

Signed: NAOMI L'ESTRANGE

Signed: MIKE ROBERTS

Date: 17 SEPTEMBER 2020

Appendix A – Investment Beliefs

1. Investment strategy is the most important decision and should be based on clear objectives

Our long term goal is to generate returns required to fund our members' current and future pensions.

Clear objectives are at the heart of our investment strategy. Risk tolerance, return requirement and time frame are our central considerations.

Our strategy should aim to achieve the objectives with a high degree of confidence across a range of possible economic scenarios.

2 There's more to robust portfolio construction than diversification alone

Excessive diversification can introduce inefficiency, cost and fail to protect our portfolio in a downturn.

Pay-off profile of assets: We tailor the expected payoff profile of the Scheme's investments around our required objectives.

***Excess liquidity of the Scheme*:** We utilise excess liquidity in order to access any illiquidity premium (when illiquidity is rewarded), taking into consideration known cash flow requirements and the need for flexibility.

***True diversification*:** We optimise true diversification of underlying risk drivers.

3 We aim to select the most appropriate opportunities in the market

A strategy that buys the right asset, at a fair price, will serve us better than buying the wrong asset at a cheap price.

We consider the most appropriate potential market opportunities in order to help us achieve our long-term objective.

4 A long term mind-set can be used to enhance returns

As a long term investor we pursue incremental growth that rewards adherence to our strategic plan, rather pursuing short term opportunities rewarding speculation.

We will mitigate or manage risks that we are not rewarded for.

Returns are more predictable over a longer time period, as risk is diversified across different economic cycles.

5 Excessive costs will erode performance

An appealing investment opportunity can be wholly undermined by too high a cost base.

Passive management, where viable, is considered the default approach.

Active management is employed where value-add can be expected with confidence.

6 Good governance improves our decision making

We continuously strive to enhance our knowledge of the investment opportunities and risks facing the Scheme.

We monitor the performance of our strategy and investment managers to improve our decision making.

7 Our investment process reflects our beliefs on responsibly investing.

We recognise that positive ESG factors can have a positive influence on the long term stability and returns of investments. However, mandates are selected with the purpose of maximising the chance of achieving the return objectives as set out in their mandates, which in combination aim to optimise the chance of achieving the Scheme's overall strategic objective.

The extent to which ESG and ethical considerations are taken into account in these decisions is delegated to the investment managers, acting within the guidelines and objectives set by the Trustee where practically possible.

Appendix B – Risks

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	**Definition**	**Policy**
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the Society's covenant strength. • Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the Society becomes unable to continue providing the required financial support to the Scheme.	• When developing the Scheme's investment and funding objectives, the Trustee take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to be at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge c.65% of these risks on a gilts +0.5% basis.
Liquidity	Difficulties in raising sufficient cash when required without adversely	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they

	impacting the fair market value of the investment.	fall due (including transfer values), and to provide collateral to the LDI/synthetic equity manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who account for ESG factors as part of their investment process. The Trustee monitor the managers in this regard on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge the currency risk on direct lending assets as much as practically possible given their highly contractual nature.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix C

The Trustee have the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• The Trustee invest in pooled funds which are aligned to the strategic objective. It is recognised that due to the nature of pooled funds, there is not scope for these funds to be specifically tailored to the policies of the Trustee. • The Scheme's mandates for Direct Lending are subject to a performance related fee.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee monitor the investment managers' engagement and voting activity on an annual basis as part of the Implementation Statement for the Trustee report and accounts. This will first be conducted for the Scheme Accounts dated 31 December 2020. By doing this, it indirectly incentivises the investment managers to make decisions based on non-financial information.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	• The Trustee review the performance of all the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Quarterly investment performance reports are produced documenting the performance of each of the Scheme's investment managers. • Investment manager fees are reviewed periodically to ensure that they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The investment managers are incentivised to minimise costs as they are measured on a net of cost basis. • Where relevant, portfolio turnover costs are considered periodically.
The duration of the Scheme's arrangements with the	• The duration of the arrangements is considered in the context of the type of fund

investment managers	the Scheme invests in. ◦ For closed ended funds or funds with a lock-in period the Trustee ensure the timeframe of the investment or lock-in is in line with the Trustee's objectives and Scheme's liquidity requirements. ◦ For open ended funds, the duration is flexible, and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.