The Moores Furniture Group Pension and Life Assurance Scheme ("the Scheme")

September 2021

Statement of Investment Principles

Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Scheme. It describes the broad investment policy being pursued by the Trustees and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles') and TPR's Investment Guidance for defined benefit pension schemes. This SIP also reflects the requirements of the Occupational Pension Schemes (Investment and Disclosure)(Amendment and Modification) Regulations 2018.

Detail on how the Scheme's investment strategy is implemented is set out in a separate Statement of Investment Arrangements ('SIA') document (which is maintained by the Trustees).

The Scheme Actuary is Michael Shimwell of Isio Group Limited (formerly KPMG LLP) and the Investment Adviser is River and Mercantile Solutions ("R&M Solutions collectively termed 'the Advisers'). The Legal Adviser is ARC Pensions Law LLP.

The Trustees confirm that, before finalising this SIP, they have consulted with Moores Furniture Group Limited ('the Employer') and the Scheme Actuary and have obtained and considered advice from the Investment Adviser. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme assets and arrange administration of the Scheme. Where it is required to make an investment decision, the Trustees always receive advice from the relevant Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustees set general investment policy, but have delegated the day-to-day investment of the Scheme assets to be undertaken through the fiduciary management service of River and Mercantile Investments Limited ('R&M Solutions'), hereafter referred to as the 'Fiduciary Manager'.

Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Fiduciary Manager or the Advisers as appropriate. The responsibilities of each of the parties involved in the Scheme governance can be found in the SIA.

The Trustees will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Employer if deemed appropriate. There will be no obligation to change this SIP, the Fiduciary Manager or Adviser as part of such a review.

Suitability

The Trustees have defined the investment objective and investment strategy with due regard to the Scheme's liabilities.

The Trustees have taken advice from the Advisers to ensure that the assets held by the Scheme and the investment strategy are suitable given the Scheme's liability profile, the Trustees' objectives, legislative requirements, regulatory guidance and specifications in the Trust Deed.

Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustees will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement and Trust Deed.

Investment Objectives

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. The Trustees have set the following qualitative objectives:

1. "funding objective" – to ensure that the Scheme is fully funded using assumptions that contain a reasonable margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Employer;
2. "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the investment strategy for the Scheme taking into account the strength of the Employer covenant; and
3. "security objective" – to ensure that the solvency position of the Scheme is expected to improve. The Trustee will take into account the strength of the Employer covenant when determining the expected improvement in the solvency position.

In quantitative terms, the Trustees' current long-term objective for the Scheme is to target an investment return objective of approximately 2.8% per annum (net of fees) in excess of the Liability Benchmark Portfolio ("LBP").

The LBP is a set of Scheme cashflows and is designed to reflect the inflation and interest rate sensitivity of the Scheme's Technical Provisions liabilities. Further details on the composition of the LBP can be found in the SIA.

General Policies

The Trustees' broad approach to investment strategy is to allocate the assets into two pools – 'Off-risk' and 'On-risk' assets. The investment objective is then translated into the strategy, and assets are allocated to these two components:

- 'Off-risk' assets, defined as the Liability Hedge Assets portfolio, aims to match a proportion of Scheme's liabilities. Assets are invested in, but not limited to fixed interest gilts, index-linked gilts and swaps.
- 'On-risk' assets, which includes the Growth Assets portfolio and the Structured Equity mandate.

The Growth Assets Portfolio aims for return generation but has the ability to invest in off-risk assets as and when required to defend against falling markets. Assets are invested in, but not limited to, equities, investment grade bonds, high yield bonds, emerging market debt, hedge funds, loans and other alternative asset classes.

The Structured Equity mandate utilises equity derivatives to increase exposure to equity markets on the upside, while paying for protection against a degree of equity market falls.

The Trustees have considered the relative risk and return potential of this portfolio, and the ability of the Employer covenant to support the level of risk in this strategy. This balance will be reconsidered on an ongoing basis, and particular at as part of each triennial valuation process and/or any significant changes to the strength of the Employer covenant.

Further information on the implementation of Scheme's investment strategy, including control ranges within which the Fiduciary Manager may operate, can be found in the SIA.

Implementation of investment strategy

The Trustees have delegated the investment of the Scheme assets to the Fiduciary Manager, which has discretion to invest the Scheme assets in underlying securities and funds (within guidelines as set out in the Fiduciary Management Agreement, 'FMA', and the SIA) either directly or through the use of other investment managers of pooled funds (hereafter referred to as the 'Underlying Managers') who invest the portfolio on a day-to-day basis. The Trustees have acknowledged and considered the potential conflict that may arise from the Fiduciary Manager belonging to the same organisation as the Investment Adviser and are satisfied that this conflict can be managed through transparency and independent advice from other advisers as appropriate.

Monitoring

The Trustees, or Advisers on behalf of the Trustees, engage in an integrated approach to the ongoing monitoring of the Scheme. In particular, decisions around the investment strategy are made with regard to the Scheme's funding plan and the covenant of the Employer.

The Trustees, or the Investment Advisers on behalf of the Trustees or any other suitably qualified Adviser, monitor the performance of the Fiduciary Manager against the agreed performance objectives and will regularly review the activities of the Fiduciary Manager to satisfy themselves that they continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme.

As part of this review, the Trustees will consider whether or not the Fiduciary Manager:

- Is carrying out their function competently.
- Have regard to the need for diversification of investments.
- Have regard to the suitability of each investment and each category of investment.
- Have been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustees are not satisfied with the Fiduciary Manager they will ask them to take steps to rectify the situation. If the Fiduciary Manager still does not meet the Trustees' requirements, the Trustees will remove that Fiduciary Manager and appoint another.

Risks

The Trustees recognise a number of risks involved in the investment of the assets of the Scheme. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:

- A Liability Benchmark Portfolio or 'LBP' is designed to broadly match the movement in liabilities in order to measure the approximate changes in the liabilities (due to changes to the relevant gilt yields only). The Trustees monitor this change relative to the change in asset values on a quarterly basis.
- The Trustees also recognise the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed through aiming for a higher overall investment return than implied by the liabilities.
- When setting and reviewing investment strategy, the Trustees examine how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the LBP and can therefore be assessed as part of the quarterly review process.
- This risk is also monitored through regular actuarial and investment reviews.

- **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of instruments and strategies designed to control the extent of downside exposure.
  - The use of passive management for asset classes where the downside risk of active management is considered too high.
  - Regular monitoring, by the Fiduciary Manager, of the active managers' performance, processes and capabilities with respect to their mandate, and by use of more than one manager to avoid over exposure to one organisation.
- **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- **Currency risk** – the risk of adverse influence on the investment value of assets denominated in foreign currencies is reduced by partially or fully currency hedging some overseas assets.
- **Mismanagement risk** – the risk of unsuitable investment activity by the Fiduciary Manager. This is addressed in the agreement with the Fiduciary Manager which contain a series of restrictions.
- **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the underlying investment managers within the Fiduciary Management mandate and the overall level of sub-investment grade bond restriction placed on the Fiduciary mandate.
- **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the Fiduciary Manager (and underlying investment managers) and Advisers.
- **Counterparty risk** – the risk of a counterparty to an agreement not carrying out their side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty. Although the Trustees have a direct contractual relationship with the Counterparties, the appointment and monitoring of the Counterparties is delegated to the Fiduciary Manager under the terms of the FMA.
- **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.
- **Sponsor risk** – the risk of the Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustees regularly reviews the covenant of the Employer.

- **ESG risk –** the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Fiduciary Manager's ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio is provided in the quarterly governance report.

The Trustees will keep these risks and how they are measured and managed under regular review.

Corporate Governance and Stewardship

The Trustees and Fiduciary Manager have agreed, and will maintain, formal agreements setting out the scope of their activities, charging basis and other relevant matters. The Fiduciary Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995. Further information can be found in the SIA.

The Trustees have appointed the Fiduciary Manager to implement the Scheme's investment strategy. The Fiduciary Manager manages assets directly on behalf of the Trustees as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Fiduciary Manager is appointed to carry out its role on an ongoing basis. The Trustees periodically review the overall value-for-money of using R&M Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustees are satisfied that these arrangements incentivise the Fiduciary Manager:

- to align its investment strategy and decisions with the Trustees' investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which is measured relative to the Trustees' long-term performance objectives.
- the Fiduciary Manager's fee basis is also partly performance related which helps align interests with the Trustee.

The Scheme investments are generally made via pooled investment funds, in which the investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Managers.

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Fiduciary Manager. The Fiduciary Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Fiduciary Manager are subject to additional sign-off by the appropriate representative from the Fiduciary Manager. The Fiduciary Manager also monitors how the Underlying Managers vote on behalf of the Trustee, and collates information on voting behaviour as part of an annual review for the Trustee.

The Fiduciary Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Fiduciary Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Fiduciary Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustees' objectives The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Fiduciary Manager, as detailed above.

The Trustees acknowledge the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Fiduciary Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Fiduciary Manager directly monitors these as part of their regulatory filings (where available), the Fiduciary Manager also monitors this as part of ongoing review. The Fiduciary Manager's Conflict of Interest policy is available publicly here: https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

The Fiduciary Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Fiduciary Manager's expectations. Where there are material deviations the Fiduciary Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

Realisation of Assets

The majority of assets are held in underlying pooled funds, most of which can be realised easily if the Trustees so require. The Trustees have explicitly set a maximum proportion in Illiquid Investments (as defined in the FMA and detailed within the SIA), which the Trustees acknowledge can take additional time to realise. The Trustees have also agreed with the Fiduciary Manager processes for the regular realisation of assets to provide cash to pay Scheme benefits.

Derivatives

The Trustees may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustees have taken advice on the suitability of the contracts and have delegated responsibility to the Fiduciary Manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

Custody

The majority of the assets in the Scheme's Growth Assets portfolio are held on behalf of the Trustees by a Custodian, currently CASEIS Bank. Although the Trustees have a direct contractual relationship with the Custodian, the appointment and monitoring of the Custodian is delegated to the Fiduciary Manager.

Financially material investment considerations

These considerations which include the aforementioned "Risks" can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant.

The Trustees policy is to delegate consideration of financially material factors to the Fiduciary Manager who considers these when constructing the portfolio, including looking at Underlying Managers. The Trustees monitor the ESG risks in the portfolio as part of their quarterly monitoring report and challenge the Fiduciary Manager to understand the risks in greater detail. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Fiduciary Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Fiduciary Manager monitors the ESG implementation and ongoing compliance with other factors, like stewardship as a part of overall engagement.

Non-financial matters

The Trustees do not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustees have no plans to seek the views of the membership on ethical considerations.