Statement of Investment Principles

This is the Statement of Investment Principles (the "Statement") made by Safeway Pension Trustees Limited, as Trustee (the "Trustee") of the Safeway Pension Scheme ("the Scheme") in accordance with the Pensions Act 1995 (as amended). The Statement is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has consulted with the sponsoring employer to the Scheme (Wm Morrisons Supermarkets Limited) and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Scheme is a defined benefit arrangement which closed to further accrual with effect from 5 July 2015.

In relation to the Myners Code of Conduct for Investment Decision Making, the extent of the Trustee's adoption of the Code is provided in a separate document named the 'Statement of Good Governance'.

The Trustee is supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustee expects its investment managers to comply with the Code and to produce a statement of their commitment to the Code.

Scheme objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustee's over-riding funding principles for the Scheme are to set the investment strategy and the employer contributions at a level which are sufficient to:

- build up assets to meet the cost of benefits already built up in respect of past service and ongoing Scheme management expenses;
- ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members; and
- achieve a level of funding whereby the assets of the Scheme can be used to purchase an annuity policy to fully insure all liabilities of the Scheme

For employee members, benefits are based on service completed up to 5 July 2015 and calculated on a mixture of final salary and career average earnings bases. The value of liabilities is calculated on the basis agreed by the Trustee and the sponsoring employer, on the advice of the Scheme Actuary. The Trustee also considers the Scheme's funding position on a more stringent "minimum risk" gilt basis as well as a solvency basis, which is used a proxy for the cost of fully insuring the Scheme's liabilities. The funding position on all bases is monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

Investment strategy

The Trustee has translated its objectives into a suitable strategic (asset allocation) benchmark for the Scheme.

The majority of the Scheme's liabilities are now insured via five bulk annuity policies. For those liabilities that are not insured, the strategic benchmark is consistent with the Trustee's view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk. The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of deferred and pensioner members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustee's view of the covenant of the sponsoring employer.

The Trustee monitors strategy relative to its agreed asset allocation benchmark. It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme, and will normally be reviewed annually. Written advice is received as required from professional advisers. The Trustee monitors the performance of Scheme investments relative to agreed criteria on a regular basis.

The Trustee has delegated all day-to-day investment decisions to authorised investment managers.

Choosing investments

The Trustee has appointed investment managers to manage Scheme investments. All investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Trustee has appointed each of its investment managers to deliver a specific benchmark or performance target, which overall will align to deliver the broader Scheme investment strategy.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Scheme. Where such tailoring is not directly achievable, the Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Scheme.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustee periodically reviews the fees paid to all its managers against industry standards.

The Trustee reviews the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Trustee recognises the long-term nature of its liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustee generally engages managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

The Trustee reviews the performance of each of its managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

Kinds of investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, bonds, cash, property and commodities either directly or through pooled funds. The Scheme may also make use of contracts for differences and other derivatives (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. Finally, the Scheme holds insurance contracts with insurance companies that insure the future benefits of an agreed population of the Scheme's membership.

The Scheme also invests in a Special Purpose Vehicle (SPV), designed to facilitate contingent assets or asset-backed funding from the sponsoring employer. The SPV is directly held by the Trustee, and as such appropriate written advice on this investment is taken on a regular basis, in particular, in relation to its continued suitability and potential conflicts of interest.

The Trustee considers all these classes of investment to be suitable in the circumstances of the Scheme.

Balance between different kinds of investments

The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market each manager will aim to maintain a diversified portfolio of assets.

The manager of the passive funds in which the Scheme invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

Risk

As part of its risk management strategy the Trustee holds five bulk annuity policies in respect of the majority of the Scheme's liabilities. Given the level of funding, associated adoption of a lower risk investment strategy and bulk annuities in respect of a material proportion of the liabilities, the Trustee focuses on the risks associated with the uninsured liabilities and ongoing Scheme expenses not covered by the insurance policies. In particular, the Trustee has considered the Scheme's funding level sensitivity to:

Funding risks

- Financial mismatch – The risk that Scheme assets fail to grow in line with the developing cost of meeting the uninsured (past service) liabilities. It includes the risk that unexpected inflation increases the pension and benefit payments and Scheme assets do not grow fast enough to meet the increased cost.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of the Scheme benefits.

- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities.

The Trustee expects the bulk annuity purchases in respect of assets and liabilities to immunise the Scheme from market risks such as credit risk and interest rate risk, inflation risk and longevity risk associated with the liabilities covered by the bulk annuity buy-ins.

The Trustee expects the risks of the buy-in providers to be addressed through the supervisory regime applicable to insurance companies but monitors the monthly payment benefits from the buy-in providers to the Scheme and periodically, normally annually, monitors the financial covenant of the buy-in providers.

The Trustee measures and manages financial mismatch for the uninsured liabilities in two ways. As indicated above, the Trustee has set a strategic asset allocation benchmark for the Scheme. The Trustee assesses risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark.

The Trustee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities. The Trustee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustee may enter into further insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

The Trustee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration – The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving objectives.

- Illiquidity – The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.

- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

- Currency risk – The risk that the currency of the Scheme's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustee provides a practical constraint on Scheme investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters.

The Trustee does not expect managers to take excess short-term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

In addition, when considering the implementation of the investment policy, the Trustee has considered the risks associated with the use of derivatives.

In appointing several investment managers, the Trustee has considered the risk of underperformance by any single investment manager.

The Trustee's approach to the consideration of ESG risks and climate risk is set out in further detail below and in the Trustee's Responsible Investment Policy.

Other provider risk

- Transition risk – The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Trustee seeks professional advice.
- Custody risk – The risk of losing economic rights to Scheme assets, when held in custody or when being traded.
- Credit default – The possibility of default of a counterparty in meeting its obligations.
- Operational risk – The risk of loss as a result of fraud, cyber-attacks, poor advice, acts of negligence or lack of suitable process.
- Legislative risk – The risk that managers of the Scheme fail to comply with changes to legislation.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Scheme, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds).

Expected return on investments

The investment strategy aims to achieve a return on the Scheme's uninsured assets which is sufficient over time to match the growth in the Scheme's uninsured pension liabilities.

Realisation of investments

In making the decision to invest in the Scheme's "illiquid" credit assets, the Trustee considered the potential liquidity impact and took written advice on this matter. The Trustee also notes that the insured annuity policies are illiquid assets of the Scheme.

Portfolio turnover

The Trustee has expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects managers to report, on at least an annual basis, a summary of any transactions over the period. The Trustee will challenge its managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

Consideration of financially material factors in investment arrangements

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors other than climate change.

Given the inherent uncertainty associated with climate change and relatively short investment horizon of the Scheme, the Trustee has not sought to explicitly consider the risks of climate change in setting its strategic benchmark or implementing its strategy. However, the Trustee periodically discusses climate change with its investment adviser and investment managers to consider the potential implications for the Scheme's investments. The Trustee has drafted a Responsible Investment Policy to highlight their objectives and processes for dealing with ESG matters, including climate risks.

The Trustee expects its investment manager to take all financially material factors into account where relevant and the terms of the mandate permit.

Selecting investment managers

The Trustee has discussed the extent to which ESG issues, where relevant to the investment mandate, are integrated into the investment processes of their active investment managers and are satisfied that the investment managers are following an approach which takes account of all financially material factors.

In passive mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal discretion to take account of factors that may be deemed to be financially material.

- In passive mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal discretion to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the market and believe this approach is in line with the basis on which their current strategy has been set

- In active mandates, the Trustee recognises that the manager has freedom to exercise discretion as to the choice of assets held. The Trustee expects the manager to take into account all financially material factors in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

The Trustee's investment beliefs on this, and other matters, are set out in a separate Responsible Investment policy.

Selecting investment managers

In selecting new investment managers for the Scheme, where relevant to the investment mandate, the Trustee explicitly considers potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making.

Consideration of non-financially material factors in investment arrangements

Non-financially material factors are the views of members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Scheme.

Given the objectives of the Scheme, the Trustee has not considered any non-financially material factors in the development and implementation of its investment strategy.

Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustee believes that responsible share ownership and seeking the best long-term value for investment in shares requires active exercise of voting rights. However, the Scheme does not currently hold listed equity assets.

The Trustee does not engage directly but believes it is sometimes appropriate for its investment managers to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. The Trustee will review engagement activity undertaken by its investment managers as part of its broader monitoring activity.

The Trustee separately considers any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

Monitoring

The Trustee aims to meet with all of its investment managers on an annual basis. The Trustee provides its managers with an agenda for discussion, including, where appropriate, ESG issues. Managers are challenged both directly by the Trustee and by its investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Additional Voluntary Contributions (AVCs)

Prior to the closure of the Scheme to future accrual the Trustee gave members the opportunity to pay AVCs. A range of equity and bond funds are available for investment at members' discretion.

On behalf of Safeway Pension Trustees Limited as Trustee of the Safeway Pension Scheme

____

October 2024