The Edinburgh Woollen Mill Ltd Retirement Benefits Scheme

Statement of Investment Principles

Contents

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustee of the Edinburgh Woollen Mill Ltd Retirement Benefits Scheme ("the Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. The Principal Employer of the Scheme has become insolvent and the Scheme has entered an assessment period for the Pension Protection Fund (the "PPF"). The Trustee has consulted the Principal Employer, through its insolvency practitioner.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustee are set out in the Trust Deed and Rules dated 6 April 1997, as amended. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee's policy is to set and keep under review a target asset allocation expected to meet the Scheme's financial and non-financial objectives. In doing so, the Trustee considers the advice of their professional advisers. The Trustee considers Barnett Waddingham LLP to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to professional investment managers. The Scheme's investment managers are detailed in **Appendix 1**. The investment managers are authorised by either the Financial Conduct Authority and/or the Prudential Regulation Authority. The investment managers are responsible for security selection and the exercise of any rights associated with the investments, e.g. voting rights.

2.3. The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also notify the PPF before amending the investment strategy.

3. Investment objectives

3.1. The Trustee's main investment objectives are:

- to ensure that they can meet the members' entitlements as they fall due, in accordance with the Trust Deed and Rules and overriding PPF requirements during the PPF assessment period;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet the cost of current benefits which the Scheme provides;
- to materially reduce key investment risks (e.g. interest rates, inflation and market) to reduce volatility in the funding level on a PPF basis;

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustee has obtained exposure to investments that it expects will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternative asset classes, such as hedge funds, private equity and infrastructure. The Scheme is also permitted to invest in derivatives including swaps and gilt repurchase agreements.

4.2. There is currently no investment made by the Scheme in the Employer, nor in any employer-related business, and none is intended.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected, in combination, to achieve the Trustee's objectives. The target allocation between different asset classes is given in **Appendix 1**.

5.2. The Trustee considers the merits of different styles of investment management for the various elements of the portfolio. The current investment management arrangements are set out in **Appendix 1**.

5.3. From time to time the Scheme may hold cash as a working balance or for tactical reasons and deviate from the target asset allocation in order to accommodate short-term cashflow requirements or other unexpected events.

5.4. The Trustee may also hold insurance policies such as deferred or immediate annuities that provide income to the Scheme, matching part, or all of the liabilities due from it.

5.5. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time. The Scheme's asset allocation is expected to change as the liability profile matures and/or as the Trustee's funding objectives are achieved.

6. Risks

6.1. The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks in the table below:

Risk relative to the valuation of the Scheme's liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. During the PPF assessment period, the investment strategy will be set with consideration of an appropriate level of risk, having consulted with the PPF.
Covenant risk	The Principal Employer entered administration and the investment strategy is no longer set with reference to the Employer covenant. It is instead set with reference to guidance set by the PPF.
Solvency and mismatching	This risk is addressed through the asset allocation strategy. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's PPF funding basis
Asset allocation risk	The asset allocation is detailed in **Appendix 1** to this Statement and is monitored on a regular basis by the Trustee.
Investment manager risk	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis and will seek meetings with the managers where it is felt that such engagement will help resolve performance concerns or add necessary understanding of the processes the managers are employing.
Environmental, Social and Governance (ESG) related risks, including climate risks	ESG-related risks, including climate risk, are potentially financially material risks across all future time periods. The Trustee will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments, in order to reduce the risk of loss and, where appropriate, to take associated opportunities. Each asset manager is expected to undertake good stewardship and positive engagement in relation to the underlying securities held, as appropriate. The Trustee monitors these and will report on the managers' practices in the Scheme's annual Implementation Statement.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment strategy, while potential collateral requirements resulting from asset holdings are monitored by the Trustee on a regular basis.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed, when appropriate, to manage the impact of exchange rate fluctuations.

Loss of assets	The risk of loss of assets by each investment manager and any associated custodians are considered on appointment and reviewed periodically by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

7.1. In setting the Scheme's investment strategy, the Trustee has regard to the relative investment return and risk that each asset class is expected to provide alone and in combination. The Trustee is advised by its professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position.

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above.

8.2. The Trustee makes disinvestments from the investment managers with the assistance of its advisers and administrators, as necessary, to meet the Scheme's cashflow requirements.

9. Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

9.1. The Trustee has set policies in relation to these matters. These are set out in **Appendix 2**.

10. Agreement

10.1. This statement was agreed by the Trustee and replaces any previous statements.

10.2. Copies of this statement and any subsequent amendments will be made available to the PPF, the investment managers, the Scheme Actuary and the Scheme auditor upon request.

This Statement of Investment Principles was approved by the Trustee of the Edinburgh Woollen Mill Ltd Retirement Benefits Scheme on 30 October 2023.

Appendix 1: Edinburgh Woollen Mill Ltd Retirement Benefits Scheme – Notes on investment policy of the Scheme in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Scheme's asset allocation as at March 2023 is set out in the table below. The allocation was set considering the Scheme's liability profile on an approximate PPF basis so as to minimise volatility on this funding basis while the Scheme is in PPF assessment. As such the strategy was implemented with the aim of approximately hedging 100% of funded liabilites on an approximate PPF basis. The manager has been given authority to automatically use the cash allocation for managing cash calls and distributions from the leveraged LDI funds.

Asset Class	Actual Allocation
Liability Driven Investment (LDI) Funds	35%
Cash	65%
Total	

2. Choosing investments

The Trustee has appointed Legal & General Investment Management ('LGIM') to carry out the day-to-day investment of the Scheme's assets.

The Investment benchmarks and objectives for funds the Scheme currently holds is given below.

Asset Class	Fund	Objectives
LDI funds	LGIM Matching Core Funds	To produce returns consistent with defined sensitivities to real and nominal interest rates.
Cash	LGIM Sterling Liquidity Fund	To offer access to liquidity whilst providing capital stability and a competitive return in relation to SONIA (Sterling Overnight Index Average).

The Trustee has AVC contracts with FIL Pensions Management Limited and The Prudential Assurance Company Limited for the receipt of members' Additional Voluntary Contributions (AVCs).

The investment managers and AVC providers are authorised and regulated by the Financial Conduct Authority.

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances.

Appendix 2: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

1. ESG-related risks (including climate change)

The Trustee recognises that Environmental, Social and Governance ('ESG') issues can and will have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues can be expected to have a material financial impact on the returns provided by those assets.

The Trustee delegates responsibility for day-to-day decisions on the selection of investments to the investment managers. The Trustee has an expectation that the investment managers will consider ESG issues in selecting securities and other investments, or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets.

The Trustee will seek advice from the Investment Adviser on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises.

In choosing investment managers, the Trustee and its advisers take the following factors into account in the selection, retention and realisation of investments:

Selection of investments: assessment of the investment managers' ESG integration credentials and capabilities, including stewardship.

Retention of investments: developing a process to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

Realisation of investments: requesting information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustee also takes these factors into account as part of its investment process to determine a strategic asset allocation and considers them as part of ongoing reviews of the Scheme's investments.

The Trustee does not currently impose any specific restrictions on the investment managers with regard to ESG issues, but will review this position from time to time.

With regard to the specific risk to the performance of the Scheme's investments associated with the impact of climate change, the Trustee take the view that this falls within its general approach to ESG issues. The Trustee will continue to monitor market developments in this area in conjunction with the Investment Adviser.

As a professional Trustee, the Scheme's Trustee maintains current knowledge of ESG considerations, including through training sessions in relation to the Scheme where appropriate.

Furthermore, the Trustee, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time to ensure they remain appropriate and in line with the Trustee's requirements.

2. Views of Members and Beneficiaries

The Scheme is comprised of a diverse membership, expected to hold a broad range of views on ethical, political, social, environmental, and quality of life issues (referred to as 'non-financial matters' in the relevant regulations). The Trustee therefore does not explicitly seek to reflect any specific views through the implementation of the investment strategy.

3. The exercise of voting rights

As of the time of preparation of this Statement, the Scheme does not invest in any assets bearing voting rights.

For the Scheme's investments in pooled funds, the Trustee acknowledges that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustee has therefore delegated responsibility for the exercise of rights (including any future voting rights) attached to the Scheme's investments to the investment managers and encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

The investment managers provide information to the Trustee on their actions in relation to engagement and use of voting rights. The Trustee is therefore aware of the policies adopted by the investment managers.

4. Engagement activities

Responsibility for monitoring the makeup and development of the capital structure of investee companies is delegated to the investment managers. The Trustee expects the extent to which the investment managers monitor capital structure to be appropriate to the nature of the mandate.

The Trustee also considers it to be part of the investment managers' roles to, where relevant, assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should the Investment Adviser raise any concerns about the performance of an investment manager in these respects, the Trustee will, in conjunction with its advisers, seek to engage with the investment manager to improve the position.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustee's expectation and the investment mandate guidelines provided, then the Trustee may consider terminating the relationship with that Investment Manager.

5. Incentivisation arrangements with investment managers

The investment managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund. The Trustee does not directly incentivise the investment managers to align the approach they adopt for a particular fund with the Trustee's policies and objectives. Instead, the investment managers and the funds are selected so that, in aggregate, the returns produced are expected to meet the Trustee's objectives.

Neither does the Trustee directly incentivise the investment managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issuers to improve their performance. The Trustee expects such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustee or governing the pooled funds in which the Scheme is invested.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations, including the selection / deselection criteria.

6. Conflicts of Interest

The Trustee maintains a separate conflicts of interest policy and register. Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the investment managers, while also setting out a process for their management.

The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA-regulated status, make the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations.

BARNETT WADDINGHAM
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Summary of Trustee's Investment Manager Arrangements

The fee arrangements with the investment managers are summarised below:

Investment manager	Fund	Annual Management Charge (%)
LGIM	Matching Core Funds	0.240%
LGIM	Sterling Liquidity Fund	0.075%

As well as the annual management charges given above, additional fund expenses will apply (covering legal, accounting and auditing fees for each fund. The additional fund expenses will vary from quarter to quarter but are expected to be in the region of 0.01-0.03% per annum.

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.