Mackays Stores Limited Retirement Benefits Scheme

Statement of Investment Principles

December 2024

Contents

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustee of the Mackays Stores Limited 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.
- 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, M&Co Trading Limited ("the Employer"), has become insolvent and the Scheme has entered an assessment period for the Pension Protection Fund (the "PPF").

1.3. In preparing this statement, the Trustee has obtained advice from Barnett Waddingham LLP, the Trustee's investment consultant. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority ("FCA").

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

1.5. 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.

1.6. The investment powers of the Trustee are set out in the Definitive Trust Deed dated 19 June 2009. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee's policy is to set the overall investment target and, in doing so, the Trustee has taken into account the fact that the PPF may assume responsibility for the Scheme or that the Trustee may secure benefits with an insurance company.

2.2. The Trustee will monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.3. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the appendix to this statement. The investment managers are authorised and regulated by the FCA and are responsible for stock selection and the exercise of voting rights.

2.4. 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 consult 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 overriding PPF requirements during the PPF assessment period.
- Subject to the above, to minimise the size of any reduction in the benefits provided to members below that set out in the Trust Deed and Rules.

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. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as practicable in light of any overriding investment constraints.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including (but not limited to) equities, bonds, cash, property and alternatives.

4.2. The Trustee considers any guidance set out by the PPF when choosing the Scheme's investments during the PPF assessment period, as well as the possibility of securing benefits with an insurer.

4.3. 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 to achieve the Scheme's objectives. The allocation between different asset classes is contained within the appendix to this statement.

5.2. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the appendix to this statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change accordingly

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:

Risk relative to the valuation of the Scheme's liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with 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 the appendix to this statement and is monitored by the Trustee.
Investment manager risk	The Trustee monitors the performance of each of the Scheme's investment managers 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. The Trustee has a written agreement with each investment manager which contains a number of restrictions on how each investment manager may operate.
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 investment 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 policy.
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 may be employed to manage the impact of exchange rate fluctuations.

Loss of assets	The risk of loss of investment by each investment manager and custodian is assessed 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. The Trustee is advised by their 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 investment managers. The Trustee has considered the risk of liquidity as referred to above.

8.2. The Trustee recognises that the Scheme's investments may have to be sold depending on the outcome of the PPF assessment period. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts

8.3. 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 policies are set out in the appendix to this statement.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment polices

10.1. Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they may consider using another manager for the mandate.

10.3. In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.4. The Trustee is mindful that the impact of ESG and climate change has a long-term nature which may exceed that of the PPF assessment period. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.

10.5. The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short-term targets.

Method and time horizon for assessing performance

10.6. The Trustee monitors the performance of their investment managers over medium- to long-term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

10.7. The Scheme invests exclusively in pooled funds. The investment managers are remunerated by the Trustee based on the assets they manage on behalf of the Trustee. In some instances, a performance fee may also be applied. As the funds grow, due to successful investment by the investment manager, the investment managers receive more and, as values fall, they receive less.

10.8. The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.9. The Trustee asks the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

10.10. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed from time to time.

10.11. During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustee acknowledges that for some asset classes, such as liability-driven investment

("LDI"), a higher turnover of contracts such as repurchase agreements can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.12. For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.13. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review, the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

10.14. For closed ended funds, the Scheme engages with the relevant investment managers over the remaining lifetime of their respective funds.

11. Agreement

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

11.2. A copy of this statement will be made available on a publicly accessible website.

Signed:... **Date:**.....................

On behalf of the Mackays Stores Limited Retirement Benefits Scheme

Appendix 1: Note 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 has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Asset class	Strategic allocation (%)
Investment-grade corporate bonds	30%
LDI portfolio including collateral	70%

Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

2. Choosing investments

The Trustee has appointed Insight Investment ("Insight") to carry out the day-to-day investment of the Scheme's assets. In addition, the Scheme has historic allocations to funds operated by the following managers:

- Carlyle Group
- Fiera Capital
- KKR Asset Management

The Trustee will continue manage down the Scheme's holdings in these funds in a pragmatic way.

The organisations as set out below are authorised and regulated by the Financial Conduct Authority:

- CELF Advisors LLP (a sub-advisor to Carlyle Global Credit Investment Management L.L.C.)
- Fiera Capital (UK) Limited
- Insight Investment Management (Global) Limited, Insight Investment Funds Management Limited and Insight Investment International Limited
- KKR Credit Advisors (EMEA) LLP

The Trustee also has contracts with Clerical Medical and Utmost Life and Pensions for the receipt of members' Additional Voluntary Contributions (AVCs). The AVC providers are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The investment benchmarks and objectives for each investment manager are given below:

Asset class	Fund	Benchmark	Objective
LDI portfolio	Insight partially funded gilt funds and credit enhanced gilt funds	Bespoke liability-based benchmark	The overarching investment objective for this portfolio is to hedge a specified proportion of the liability cash flows against changes in interest rates and inflation expectations.
Liquidity	Insight Liquidity Plus Holding Fund	SONIA	To outperform the benchmark by 0.25% per annum, before the deduction of annual management fees and expenses over rolling three-year period.
Investment-grade corporate bonds	Insight maturing buy & maintain credit funds	The funds do not have a formal benchmark	The funds seek to generate a return for investors by investing primarily in a portfolio of debt securities.
Illiquid return-seeking assets	Carlyle Strategic Partners III Fund	The Fund does not have a formal benchmark	To generate superior risk-adjusted returns principally through investing on an opportunistic basis in the equity, debt and other instruments of operationally sound, financially distressed companies.
Illiquid return-seeking assets	KKR Lending Partners Europe (GBP) Unlevered Fund	Credit Suisse Western European Leveraged Loans Index Fund + 2% p.a.	To generate current income through investments in secured debt, including in particular senior secured and secured loans and bonds.

Illiquid return-seeking assets	Fiera Digital Infrastructure Capital Partners	The Fund does not have a formal benchmark	To assess the options available to best preserve capital.

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

The AVC arrangement is reviewed from time to time.

3. Investments and disinvestments

Investments and disinvestments are considered from time to time as necessary.

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

1. Financially material considerations

The Trustee recognises that factors such as ESG issues (including but not limited to climate change) may be financially material for the Scheme over its remaining lifetime.

The Trustee has elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustee after taking advice from their investment consultant and having considered any guidance from the PPF.

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 the selection, retention and realisation of 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 also take these factors into account as part of its investment process to determine a strategic asset allocation and consider 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.

As a professional Trustee, the Scheme's Trustee maintains current knowledge of ESG considerations.

2. Non-financially material considerations

The Trustee does not take into account the views of Scheme members and beneficiaries in relation to issues such as (but not limited to) ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

3. The exercise of voting rights

At the time of preparing this statement, the Scheme does not invest in any assets that are expected to bear 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

The Trustee acknowledges the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, (that is, that they apply to equity, credit and property instruments or holdings). The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustee also considers it to be part of their investment managers' roles to 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 an investment manager be failing in these respects, this should be captured as part of the process of producing the annual Implementation Statement.

The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes 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. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustee may consider investment managers' policies on engagement and how these policies have been implemented.

Appendix 3: Investment manager fee arrangements

The fee arrangements with the investment managers are summarised below:

Investment manager	Fund	Fee arrangements (%)
Insight	Partially funded gilt funds	Management fee of 0.06% of the value of total exposure
Insight	Leveraged credit enhanced gilt funds	Management fee of 0.08% p.a. of the value of total exposure
Insight	Liquidity Plus Holding Fund	Management fee of up to 0.10%
Carlyle	Strategic Partners III Fund	Management fee of 1.25% p.a. and a 20% performance fee on returns in excess of 8% over the life of the Fund
KKR	Lending Partners Europe (GBP) Unlevered Fund	Standard management fee of 0.85% p.a. (from March 2022, management fees were reduced by 50% and, in 2023, management fees were reduced by a further 50%) Performance fees will not be charged given the performance of the Fund
Fiera	Digital Infrastructure Capital Partners	Management fee of 0.80% p.a. based on total capital committed

As well as the fees outlined above, additional fund expenses may apply (covering legal, accounting and auditing fees). The additional fund expenses may vary over different time periods.

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.