Scheme Investment Objective

The Trustee's objective is to invest the assets of the Arcadia Group Senior Executives Pension Scheme prudently to ensure that the benefits promised to members are provided, when they become due, as far as can reasonably be expected.

In setting the investment strategy, the Trustee has taken account of the Scheme's liability profile and the Sponsoring Employer's objectives of (1) achieving over the longer-term a return on assets high enough to keep the underlying contribution rate at an acceptable level and (2) keeping within acceptable limits the additional contributions required from time to time on account of poor short-term investment returns.

The asset allocation strategy the Trustee has selected is designed to achieve a higher return than the lowest risk strategy, while maintaining a prudent approach to meeting the Scheme's liabilities.

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005, including subsequent amendments and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

STRATEGY

The Scheme's assets are broadly divided into a Liability-Driven Investment Section and a Returns Section:

- The Liability-Driven Investment Section is low-risk relative to the Scheme's liabilities and includes some or all of government bonds, corporate bonds, cash, swaps, repurchase agreements and other assets with liability-matching properties. The primary aim of this portfolio is to reduce the volatility of the funding position and achieve a better match with the Scheme's liabilities;
- The Returns Section is higher risk versus the Scheme's liabilities and is expected to outperform the liabilities and it includes fixed income and fixed income like assets including, but not limited to, private lending and secured finance.

The exact proportion in each Section and the specific investments within each Section will vary over time.

The high level asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position, the liability profile and the Trustee's assessment of the Employer's covenant. The Trustee's policy is to make the assumption that the asset classes included in the Returns Section will outperform gilts over the long-term and assume that where active fund management is used, it can be expected to add value. However, the Trustee recognises the potential volatility in the asset classes included in the Returns Section, particularly relative to the Scheme's liabilities. When choosing the Scheme's planned asset allocation strategy the Trustee considered written advice from its investment and financial advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes;
- The risks and rewards of a range of alternative asset allocation strategies;
- The suitability of each asset class;
- The need for appropriate diversification; and
- The strength of the Employer's covenant.

The Trustee also consulted with the Employer when setting this high level strategy.

The asset allocation of the underlying Sections may be adjusted from time to time to take account of, and attempt to take advantage of, prevailing market conditions. The Trustee will agree in advance a risk-based framework to control the 'steering' of the underlying asset allocation of the Sections.

RISK

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference between the sensitivity of asset values to changes in financial and demographic factors and the sensitivity of liability values to those same changes ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Trustee and its advisers will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and its advisers, both upon the initial appointment of the fund managers and on an ongoing basis thereafter, through regular monitoring.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Scheme's investment strategy.
- The possibility of failure of the Scheme's Employer ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the Employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

The Trustee's policy is to monitor, where possible, these risks quarterly. The Trustee receives quarterly reports showing:

- Actual funding level versus the Scheme-specific funding objective;
- Performance of individual fund managers versus their respective targets;
- The effectiveness of financial instruments in containing the Scheme's exposure to changes in interest rates and inflation; and
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

The Trustee also receives annual financial reviews from the Employer and, in the years when a triennial valuation is not taking place, they commission an annual Actuarial Report.

SECTIONS

The Scheme portfolio is notionally divided into two Sections. The split of Scheme assets between the two Sections may be altered by the Trustee from time to time, depending on how the Scheme's funding level changes due to investment returns and Employer contributions.

The first Section is called the **Liability Driven Investment Section** (or **LDI Section**). The objective of this Section is to minimise risk relative to the Scheme's liabilities using a combination of bonds, cash, repurchase agreements, swaps and other assets with liability-matching properties.

The LDI Section contains a portfolio of investments that are considered to be low-risk relative to the Scheme's liabilities. This means that the market value of these assets is expected to change in a similar way to the present value of the Scheme's liabilities. This Section may invest in fixed interest and index-linked gilts and corporate bonds, cash, repurchase agreements and swaps (both fixed interest and RPI-linked), along with other assets that exhibit liability-matching properties. These assets and derivative instruments are used as part of a risk mitigation strategy, and are held with the intention of reducing the volatility of the Scheme's assets relative to the Scheme's liabilities.

The second section is called the **Returns Section**. The objective of this Section is to produce strong risk-adjusted returns ahead of the rate of return assumed by the Scheme's Actuary. A variety of asset classes may be combined taking into account the characteristics of each asset class and any complementary factors.

In aggregate, both Sections are limited to the following assets classes (and constraints):

Permitted Asset Class Exposure	Range (%)
Fixed Income and Liability Matching	0 – 100
Cash (and near cash instruments)	0 – 50

IMPLEMENTATION

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee takes into account whether it has the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision-making structure:

The Trustee (along with the Trustee of the 'sister' scheme, the Arcadia Group Pension Scheme) has established a Joint Investment & Funding Committee (JIFC) with wide-ranging investment powers. Momentum Investment Solutions and Consulting has been appointed as investment advisor, advising both Trustees and the JIFC.

The role of the Trustee in this structure is to establish high-level funding and investment objectives and to monitor the progress of the Scheme's funding level against those objectives. These objectives are stated in this SIP and have been consulted on and approved by the Employer.

The role of the JIFC is to manage the investment arrangements of the Scheme's assets with the aim of achieving the objectives set out in this SIP. This includes selecting, appointing and reviewing fund managers and controlling the blend of assets within each Section.

Momentum Investment Solutions and Consulting operates under an agreement to provide a service which ensures that the Trustee and the JIFC are fully briefed to take decisions themselves and to monitor those they delegate. The Trustee will agree a fee structure with Momentum Investment Solutions and Consulting that is designed to ensure that cost-effective, independent advice is received.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through a written contract. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

The Trustee regularly reviews the continuing suitability of the Scheme's investments, including the appointed managers. The Trustee seeks long-term, ongoing partnerships with their investment managers to incentivise medium to long-term financial performance. The Trustee does not set duration expectations for its partnerships but monitors their suitability on an ongoing basis.

To incentivise medium to long-term financial performance, the Trustee assesses investment manager performance over various periods including 3 year and since inception of the mandate. It heavily biases its review of ongoing suitability of the investment manager on the assessment of the future performance expectations and the portfolio's role in supporting the overall investment objectives.

Remuneration for asset management services are reviewed at the outset of each appointment to ensure they are competitive for the type of investment strategy the manager is being appointed to manage. They are also reviewed on a periodic basis to ensure they remain competitive.

To incentivise the medium to long-term non-financial performance of its investments, the Trustee will monitor the stewardship and engagement activities for each of its investment managers on an annual basis. The Trustee expects its investment managers to directly engage with issuers to improve the issuer's performance on a medium to long-term basis. The quality of each investment manager's approach forms part of the assessment of its ongoing suitability.

The Trustee also requires each of the investment managers to conform to the Scheme's Statement of Investment Principles and formally confirms compliance on a regular basis. Non-compliance could result in the arrangement being terminated.

The investment advisor on behalf of the Trustee reviews the turnover and ongoing investment costs. Each portfolio has an expected investment turnover range defined as the average turnover of the portfolio for the type of investment strategy the manager has been appointed to manage. Deviations from that range are reviewed with the investment manager.

Responsible Investing: Environment, Social & Governance ("ESG") including Climate Change considerations

The Trustee believes that environmental, social and corporate governance ("ESG") issues including climate change risks can be financially material to long-term investment portfolios and should therefore be considered as part of the Scheme's investment process.

The Trustee has given their investment managers full discretion to evaluate ESG issues in the selection, retention and realisation of investments. The Trustee believes that good active managers have considered how to best account for ESG factors in their investment process. The evaluation of how the Trustee's active managers have identified and managed material ESG risks, forms part of the Trustee's ongoing appraisal of the manager's appointment.

The Trustee believes that the impact of, and potential policy responses to, climate change creates a material financial risk. The Trustee's investment managers' identification and integration of climate change risks forms part of the Trustee's monitoring and ongoing assessment of their managers.

It is accepted that pooled investments will be governed by the individual policies of the investment managers. The extent to which ESG and climate change risks are taken into account are left to the discretion of the investment manager and forms part of the Trustee's monitoring and ongoing assessment of these investments.

The Trustee does not require their investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

The implementation arrangements are set out in more detail in the table below:

<table>
<tr>
<td>Trustee
• Monitors actual investment returns versus the Scheme portfolio objective.
• Sets structures and processes to enable the Trustee Board to carry out its role.
• Agrees clear objectives for the LDI Section and the Returns Section.
• Selects planned asset allocation strategy (i.e. the split of assets between the Sections) in consultation with the Employer.
• Appoints the Joint Investment & Funding Committee (the JIFC).
• Considers recommendations from the JIFC.</td>
<td>The Joint Investment & Funding Committee (the ‘JIFC’)
• Makes recommendations to the Trustee Board on:
– Selection of investment advisors.
– Structure for implementing investment strategy.
• Appoints and replaces fund managers
• Controls the asset allocation within each Section, including introducing new asset classes if required, within the agreed guidelines for each Section.
• Monitors investment advisers and fund managers.
• Monitors direct investments.
• Makes ongoing decisions relevant to the operational principles of the Scheme’s investment strategy.
• Further details regarding the scope of the JIFC can be found in its Terms of Reference.
• Selects direct investments (see below).</td>
</tr>
<tr>
<td>Investment Adviser
• Advises on all aspects of the investment of the Scheme assets, including implementation.
• Advises on this statement.
• Provides required training.</td>
<td>Fund Managers
• Operate within the terms of this statement and their written contracts.
• Select individual investments with regard to their suitability and diversification.
• Comment to the Trustee on the suitability of the indices in the Scheme benchmark.</td>
</tr>
</table>

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

The Scheme's investment managers are remunerated on mixture of flat and tiered fee bases, varying by portfolio. A tiered fee basis means that the marginal fee scale reduces depending as the value of assets invested increases (in such circumstances the Trustee has ensured that the assets of the 'sister' scheme, the Arcadia Group Senior Executives Pension Scheme are aggregated for the purpose of fee calculations).

Where assets are held in pooled funds, the manager has appointed a custodian. The custodian provides safekeeping for the assets of that pooled fund and performs the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions. A custodian has also been appointed by the Trustee for the Scheme's segregated assets.

DIRECT INVESTMENTS

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments, the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries;
- Security;
- Quality;
- Liquidity;
- Profitability;
- Nature and duration of liabilities;
- Tradability on regulated markets;
- Diversification; and
- Use of derivatives.

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES

The Trustee will review this SIP on a regular basis and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Employer over any changes to the SIP.

Dated:

Signed by Chair of the Trustee:

Dated:

Signed by Chair of the Joint Investment & Funding Committee:

Dated:

Signed on behalf of Arcadia Group Limited: