Marshalls plc Pension Scheme

Statement of Investment Principles ("SIP")

Purpose of this Statement

This SIP has been prepared by MPS Pension Trustees Limited ("the Trustee") as Trustee of the Marshalls plc Pension Scheme (the "Scheme"). This statement sets out the principles governing the Trustee's decisions to invest the assets of the Scheme.

The Scheme's investment objectives and strategy were reviewed during the strategy review. The Trustee's investment objectives are set out in Appendix A. Details of how risks and financially material considerations have been addressed and managed by the Trustee are outlined in Appendix B. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

Details on the Scheme's investment manager arrangements are set out in the Investment Implementation Document ("IID") which is maintained by the Trustee.

Investment objectives

The Trustee invests the assets of the Scheme with the primary objective of ensuring that all members' accrued benefits can be paid. The Scheme's funding target is specified in the Statement of Funding Principles. The Scheme's funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Scheme's circumstances.

The Scheme's present investment objective is to achieve a return of approximately 1.5% per annum above the return on 10-year UK Government gilt yield.

The Scheme aims to hold a diversified range of suitable assets of appropriate liquidity, which will generate income and capital growth to meet the cost of the benefits which the Scheme provides.

Progress against all the Scheme's investment objectives is reviewed on a regular basis (at a minimum, quarterly).

Investment strategy

The Scheme's investment strategy was derived following careful consideration of the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios), the overall income available to the Scheme under the strategy and the strength of the sponsoring company's covenant. The Trustee considered the merits of a range of asset classes, including various "alternative assets".

The Trustee recognises that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated present value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, investing in assets which hedge the interest rate and inflation risk associated with the Scheme's liabilities and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Scheme consist predominantly of investments which are traded on regulated markets.

The Trustee, with the help of its advisers and in consultation with the Company, reviews the investment strategy on an ongoing basis, taking into account the objectives described above.

Investment Management Arrangements

The Trustee has appointed several investment managers to manage the assets of the Scheme as listed in the IID. The investment managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions. The Trustee take advice from their investment consultants, Isio, on what would be considered a financially material consideration and take into account various factors (e.g. investment objective, time horizon and structure) in assessing financially materiality;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when deciding whether to select or retain managers and also when monitoring managers' performance. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers to whom discretion has been delegated are expected to exercise their powers of investment with a view to giving effect to the principles contained within this SIP, so far as reasonably practicable.

The investment managers' remuneration is based upon a percentage value of the assets under management (with the exception of the Liability Driven Investment ("LDI") mandate, which is based on liabilities hedged). The fees have been agreed to be competitive and are reviewed on an ongoing basis.

The Scheme's assets are invested in both pooled vehicles (where the custody of the holdings is arranged by the investment manager and the holdings are co-mingled with those of other investors) and in a Qualified Investor Fund ("QIF") (where the custody of the holdings is arranged by the investment manager but the holdings are kept in isolation to that of other investors). The allocations to Buy and Maintain Corporate Bonds and LDI are segregated, with the Bank of New York Mellon acting as custodian and BlackRock acting as the investment manager. The custodian provides safekeeping for the assets, and performs all associated administrative duties such as collection of dividends.

Financially Material Considerations and Stewardship Policy

The Trustee has considered all financially material considerations over the appropriate time horizon of the investments (which is expected to be over a long-term horizon of around 10 years and reflecting the nature of the Scheme's primary investment objective), including how those considerations are taken into account by the managers in the selection, retention and realisation of investments; and the extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments; and the exercise of the rights (including voting rights) attaching to the investments; and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee would monitor and engage with relevant persons about relevant matters), i.e. stewardship.

Financially material ESG factors will be considered "financially material" if, and to the extent that, they have a material impact on risk/return and that good stewardship practices (including monitoring and engaging with investee companies, and exercising voting rights attaching to investments) may create/preserve long-term value for investors. For the avoidance of doubt, the Trustee delegates exercising voting rights and investee engagement to the investment managers. Reporting on this activity is considered by the Trustee as part of their wider monitoring of the managers' ESG practices.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice. The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but engages with these managers through their investment consultants, Isio, and through manager attendance at Trustee meetings.

Details of how risks and financially material considerations have been addressed and managed by the Trustee are outlined in Appendix B.

The Scheme also holds its own separate Environmental, Social and Governance policy ("ESG"), which incorporates the Scheme investment managers own policies alongside the policies of the sponsor company and builds an overarching ESG approach that is managed within the Scheme.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Scheme's investment managers on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	• The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting. • The Scheme's investment managers are invited, in person, to present to the Trustee on their performance, strategy and risk exposures.	• There are significant changes made to the investment strategy. • The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations. • Underperformance vs the performance objective over the period that this objective applies.

Environmental, Social, Corporate Governance factors and the exercising of rights	• The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. The exception to this is LGIM, who due to the long-term and illiquid nature of the LPI Fund do not report specifically at Fund level. The LGIM Real Assets ESG Report is reviewed and updated when necessary and can be provided upon request. • The Trustee receives information from their investment advisers on the investment managers' approaches to engagement. • For the avoidance of doubt, the Trustee expects appointed investment managers to follow their own ESG and engagement policies to the extent that these are beneficial to the Scheme beneficiaries.	• The manager has not acted in accordance with their policies and frameworks. • The manager's policies are not in line with the Trustee's policies in this area.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

Employer-related investments

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Scheme's total value. The Trustee will monitor this on an ongoing basis to ensure compliance.

Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

Governance

The Trustee of the Scheme make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee's investment advisersIsio, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience. The investment adviser's remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Scheme.

Compliance

This SIP has been prepared following consultation with the Company and after obtaining and considering written professional advice from the Scheme's investment adviser Isio, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The SIP is designed to comply with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. The SIP will be reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Signed:

Signed:

Date:

Appendix A – Investment Objectives

1. **Target funding objective (time, basis)**

Self-sufficiency on Gilts + 0.5% and use insurance market as opportunities arise.

Target to achieve this by 2025 – 2030.

2. **Level of risk to take**

Take a low level of risk to achieve objective by utilising contractual assets and giving up extreme upside for downside protection.

3. **Long term exit plan**

Low risk self-sufficiency, leading to:

Securing some or all of the pensions with an insurance company.

4. **Long term strategic asset allocation**

Leading up to meeting the objective, to invest in high quality corporate bonds and Gilts.

5. **Interest rate hedging strategy**

Target 100% of assets. (To revisit should Sponsor position change).

6. **Inflation hedging strategy**

Target 100% of assets. (To revisit should Sponsor position change).

7. **Utilise illiquidity premiums**

Open to access some illiquidity but need to consider cashflow requirements (transfer values and liability management exercises).

8. **Liability management exercises**

Open to securing some or all of the liabilities with an insurance company if opportunities arise.

9. **Sponsor views to incorporate**

Would like the Trustee to incrementally improve on strong starting position without undue risk that would require additional funding.

Appendix B – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	**Definition**	**Policy**
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	• When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 100% of these risks on a technical provisions basis.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.

Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge any significant currency risk, where practical to do so, on assets where the majority of the return is derived from contractual income.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.

Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	ESG is taken into account as part of Isio's standard due diligence and ongoing research and as such is a consideration in the selection and retention of the Scheme's investment managers. The Trustee monitors the managers' adherence to their own ESG policies and their alignment with the Trustee's own ESG policy. Significant deviation from either of these measures would result in the Trustee considering termination of the mandate.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are taken into account in the selection, retention or realisation of investments where there is a clear agreement from the Trustee that this would be aligned with members' best interests.

Appendix C – Investment Management Arrangements

The Trustee have the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee policies.	• As the Scheme is invested in a number of pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, where the Trustee does invest in pooled funds, they do so in ones that are aligned to the strategic objective. • The Trustee have segregated arrangements with one investment manager, thereby allowing the investment manager to align their strategy with the Trustee's policies. This is reviewed on an ongoing basis.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee's review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee's monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustee's do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are	• The Trustee's review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.

in line with the Trustee policies.	• The Trustee evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustee's do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.
	  o For closed ended funds or funds with a lock-in period the Trustee's ensure the timeframe of the investment or lock-in is in line with the Trustee's objectives and Scheme's liquidity requirements.
	  o For open ended funds, the duration is flexible and the Trustee's will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.