

STATEMENT OF INVESTMENT PRINCIPLES*for the**Selfridges Pension Scheme**July 2020***1. Introduction****1.1. What is the purpose of this Statement of Investment Principles?**

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the Selfridges Pension Scheme (the "Trustee") on various matters governing decisions about the investments of the Selfridges Pension Scheme (the "Scheme"), a Defined Benefit ("DB") Scheme which also has a Defined Contribution ("DC") policy in respect of some historic benefits transferred in to the Scheme.

1.2. Who has had input to the SIP?

This SIP has been formulated by the Trustee after obtaining and considering written professional advice from Lane Clark & Peacock LLP, the Scheme's investment adviser and actuaries, who the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments and the need for diversification, given the circumstances of the Scheme and the principles contained in this SIP.

The employer was consulted on the SIP. The investment managers are required to carry out their investment responsibilities in a manner consistent with this SIP.

1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005 and, for the DC policy, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 ("the Regulations").

The Scheme's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Scheme's Trust Deed.

The investment objectives for the DB section of the Scheme are that:

- the Scheme should be able to meet benefit payments as they fall due; and
- that the Scheme's funding position (i.e. the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustee is aware that there are various measures of funding and has given due weight to those considered most relevant to the Scheme. In particular, the Trustee has considered the funding requirements detailed in the Occupational Pension Schemes (Scheme Funding) Regulations 2005.

The key underlying principles of the Scheme's investment strategy are:

- to deliver greater certainty of investment outcomes (and therefore member outcomes), by investing largely in assets which deliver secure, contractual income; and
- to invest, where possible and affordable, in assets whose expected income matches expected benefit payments.

The Trustee's primary objective for the DC policy is to provide members with access to an appropriate range of investment options, reflecting the membership profile of those in the DC policy and the variety of ways that members are likely to draw their benefits in retirement.

3. What risks does the Trustee consider and how are these measured and managed?

When deciding how to invest the Scheme's assets, the Trustee considers a wide range of risks, including, but not limited to, those set out in Appendix A. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

4. Summary of the Scheme's investment strategy

4.1. How was the DB investment strategy determined?

The Trustee, with the help of its advisers and in consultation with the employer, undertook a full review of investment strategy for the DB section in 2018, considering the objectives described in Section 2 above.

4.2. What is the DB investment strategy?

The result of the strategy review for the DB section was that the Trustee agreed that the investment strategy of the Scheme should ultimately be based on the allocation below.

Asset class	Strategic allocation (%)
Long-lease property	15
Infrastructure	15
Private credit	20
Multi-asset credit	7.5
Corporate bonds	5
Short duration credit	7.5
Leveraged LDI	30
Total	100

However, it may be some time before the strategic allocation is implemented, due to the manager appointment process and the drawdown of commitments (which can take over two years for private credit allocations). The allocation to LDI may be different to that shown in the table above, depending on the leverage within the LDI funds at any point in time. The leveraged LDI allocation is broadly intended to hedge 90% to 95% of the interest rate risk and inflation risk in the Scheme's technical provisions.

At the time of writing, the interim allocation was broadly as follows:

Asset class	Interim allocation (%)
Long-lease property	14
Infrastructure	14
Private credit	6
Multi-asset credit	7
Corporate bonds	8
Short duration credit	6
Leveraged LDI and cash	45
Total	100

In addition, the sponsor made special contributions to the Scheme in September 2012 of £35.8m and in June 2015 of £16.1m which were used to acquire an interest in a Scottish Limited Partnership (the "SLP") which holds a specific property asset. The Scheme is entitled to a share of the rental agreement over the 20 year period to 30 September 2032, subject to certain conditions.

4.3. What is the DC investment strategy?

For the DC policy, the Trustee has made available a range of investment funds for members. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved. This policy is no longer open to new contributions and there is no default option in place.

The Trustee will monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

4.4. What did the Trustee consider in setting the Scheme's investment strategy?

The strategy review included modelling the Scheme's assets and liabilities over a wide range of possible scenarios for future economic conditions. In setting the strategy for the DB section, the Trustee considered:

- a wide range of asset classes;
- the risks and rewards of a number of possible asset allocation options;
- the suitability of each asset class within each strategy, both across asset classes and within asset classes;
- the need for appropriate diversification between different asset classes;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme; and
- the views of the sponsoring employer.

In determining the investment arrangements for the DC policy the Trustee considered the risks, rewards and suitability of a number of possible asset classes and strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken.

4.5. What are the Trustee's key investment beliefs?

Some of the Trustee's key investment beliefs are set out below:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- credit and illiquidity are the primary rewarded risks;
- assets with contractual cashflows allow clearer visibility of expected portfolio returns;
- risks that do not have an expected reward, such as interest rate, inflation and currency, should generally be avoided, hedged or diversified;
- environmental, social and governance (ESG) issues are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management (which includes a range of rules-based portfolio construction strategies) is usually better value;

- long-term environmental, social and economic sustainability is one factor that should be considered when making investment decisions;
- responsible investment in well governed companies and engaging as long-term investors can reduce risk over time and may positively impact Scheme returns; and
- costs have a significant impact on long-term performance.

4.6. What assumptions were made about the returns on different asset classes?

The key financial assumptions underlying our model as at 31 March 2018, used in the full investment strategy review referred to in Section 4.1, were as follows:

• average long-term inflation:	3.3%
• average long-term gilt yield:	1.6%
• average long-term return on equities:	6.6%
• average long-term return on corporate bonds:	2.5%
• average long-term return on multi-asset credit:	3.5%
• average long-term return on private credit:	5.4%
• average long-term return on infrastructure:	5.6%
• average long-term return on long lease property:	4.6%
• average long-term return on dynamic LDI:	2.6%

Thus, the model assumes that there is a 50/50 chance that, over the long term, equity-type investments will outperform gilts by at least 5.0% pa.

5. Appointment of investment managers

5.1. What formal agreements are there with investment managers?

The Trustee has signed investment management documentation with the investment managers.

This documentation and its supporting documentation set out in detail the terms on which the portfolios are managed, including the need for suitable and appropriately diversified investment.

In respect of the DC policy, the Trustee has a contract with Utmost Life and Pensions ("Utmost") which makes available the range of investment options to members. There is no direct relationship between the Scheme and the underlying investment managers of the DC investment funds.

The appointed investment managers are listed in the Trustee Report & Accounts.

5.2. What do the investment managers do?

The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

6. Other matters

6.1. What is the Trustee's policy on the realisation of investments?

The investment managers have discretion over the timing of realisation of investments of the Scheme and in considerations relating to the liquidity of investments. When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements.

6.2. What is the Trustee's policy on social, environmental and ethical factors?

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members, since it recognises that these factors can be relevant to investment performance.

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 does consider non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments. The Trustee will aim to incorporate the sponsor's ethical investment guidelines for pension schemes, where possible. The Trustee cannot directly control the underlying investments, where investments are made via pooled funds, but will make the investment managers aware of these guidelines, and will periodically review the underlying investments against these guidelines.

More generally, investment managers may also be requested by the Trustee from time to time to provide a report on the overall impact of social, environmental and ethical considerations on investment management, and to comment on situations in which social, environmental or ethical considerations have been decisive.

The over-arching aim is to assess the extent to which environmental, social and governance factors will contribute to, or detract, from the long-term value of a company.

6.3. What is the Trustee's policy on the exercise of investment rights?

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

6.4. What are the responsibilities of the various parties in connection with the Scheme's investments?

Appendix B contains brief details of the respective responsibilities of the Trustee, the investment adviser and the investment managers. Appendix B also contains a description of the basis of remuneration of the investment adviser and the investment managers.

6.5. Does the Trustee make any investment selection decisions of its own?

Before making any investment selection decision (eg an AVC policy) of its own, it is the Trustee's policy to obtain written advice. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustee's policy to review its own investment selection decisions on a regular basis, based on written advice.

The Trustee and investment managers to whom discretion has been delegated exercise their powers giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

6.6. How does the Trustee make sure the investment managers' actions are aligned to the needs of the Scheme?

The Trustee and the investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

The Trustee will, from time to time, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

For and on behalf of

Date

The Trustee of the Selfridges Pension Scheme

The Trustee's policy towards risk, risk measurement and risk management

Appendix A

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The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

A.1. Strategic risk

This is the risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions. This risk has been considered in the Trustee's investment strategy review (including accounting for the structure and form of the liabilities), and will be monitored by the Trustee on a regular basis.

The Trustee will review the Scheme's investment strategy at least every three years in light of the various risks faced by the Scheme.

A.2. Inadequate long-term returns

A key objective of the Trustee is that, over the long-term, the Scheme should have adequate resources to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme to produce an adequate long-term return in excess of price and wage inflation.

A.3. Investment manager risk

This is the risk that the investment managers fail to meet their investment objectives. Prior to appointing the investment managers, the Trustee undertook investment manager selection exercises. The Trustee monitors the investment managers on a regular basis.

A.4. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustee's ability to meet its investment objectives.

The Trustee believes that the need for the Scheme's assets to be adequately diversified between different asset classes has been met by the strategy outlined in Section 4.2. The Trustee considers the benefits of diversification within each asset class, and addresses this by appointing more than one manager for an asset class where this is felt to be beneficial, and by the guidelines agreed with the investment managers.

A.5. Liquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed appropriately via the measures described in

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Appendix A (cont)

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

A.6. Other risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme. Examples include:

- mortality risk (the risk that members live, on average, longer than expected); and
- sponsor risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

The Trustee also has in place processes to consider and monitor these non-investment risks on a regular basis.

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustee believes that they have addressed and are positioned to manage this general risk.

B.1. Responsibilities and investment decision-making structure

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service.

B.2. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy (eg any asset liability modelling exercise);
- if required, the policy for rebalancing between asset classes and asset managers;
- maintaining a sufficient level of expertise to allow it to challenge the advice it receives and to manage conflicts of interest;
- appointing, monitoring, reviewing and dismissing the investment managers, the actuary and investment consultants;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- formulating a policy on socially responsible investment issues;
- formulating a policy on voting rights;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer(s) when reviewing the SIP.

The Trustee has delegated consideration of certain investment matters to an investment sub-committee, although any decisions remain the responsibility of the Trustee.

B.3. Investment managers

In broad terms, the investment managers will be responsible for:

- managing their respective portfolios, within the guidelines agreed with the Trustee;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

In broad terms, the actuary and investment consultant will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on a suitable fund range and, if applicable, a default strategy for the Scheme's DC policy, and how material changes to legislation or within the Scheme's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

B.5. Mandates given to advisers and investment managers

The Trustee has in place signed agreements with each of the Scheme's advisers and investment managers. These provide details of the specific arrangements agreed by the Trustee with each party.

B.6. Fee structures

The Trustee recognises that the provision of investment management, dealing and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's actuarial and investment advisers, under which charges are calculated on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.