Asda Group Pension Scheme

Statement of Investment Principles

September 2020

Introduction

This document is the Statement of Investment Principles (the ‘Statement’) for the Asda Group Pension Scheme (the ‘Scheme’). It has been drawn up by Asda Group Pension Scheme Trustees Limited as trustee of the Scheme (the ‘Trustee’), taking into account the relevant legislation.

The Statement sets out the high-level objectives, principles and policies governing the investment decisions of the Trustee.

Investment Objective

The primary objective of the Trustee is to pay the benefits in full as they fall due (the ‘Primary Objective’). To this end, the Trustee, in consultation with the Scheme’s sponsoring employer, Asda Stores Limited, has appointed Rothesay Life plc (the ‘Insurance Provider’) to provide a buy-in policy for the Scheme. This policy is designed to meet all members’ benefit payments as they fall due.

The buy-in policy was implemented on 16 October 2019. It is expected that the buy-in policy will be converted into a buy-out policy within two years of executing the buy-in policy (the ‘Buy-out Objective’). At that point, the responsibility for meeting members’ benefits will be transferred from the Trustee to the Insurance Provider. To support the Buy-out Objective the Trustee is in the process of realising the remaining investments held in the Scheme’s name.

In the meantime, the Trustee retains overall responsibility for reviewing the ongoing operation of and risks associated with the buy-in policy. This includes, but is not limited to, the Insurance Provider’s ongoing credit quality and the timeliness and accuracy of payments made to the Scheme.

Investment policies

Securing compliance with the duty to choose scheme investments under Section 36 of the Pensions Act

Before investing, the Trustee obtains and considers advice from a suitably qualified investment adviser. This advice considers the overall suitability of the investments in relation to a number of key investment principles.

The kinds of investments held by the Scheme

The majority of the Scheme’s assets are invested in the buy-in policy managed by the Insurance Provider. In addition, the Scheme holds some residual investments in private equity and hedge funds.

The residual investments are being realised to support the Buy-out Objective. However, they have limited liquidity and hence cannot be realised in a short timeframe. Responsibility for the realisation of the residual pooled investments has been delegated by the Trustee to Cardano Risk Management Limited (the 'Fiduciary Manager') and realisation of the residual illiquid assets has been delegated to specialist brokers.

A schedule for realising these investments has been agreed by the Trustee which balances the desire to move towards the Buy-out Objective in an acceptable timeframe and the impact on the realisable value of the assets. The Trustee will consider a range of factors when realising investments including the direct and indirect costs associated with the realisation of assets.

The balance between different kinds of investments

The need to maintain an appropriate balance between different kinds of investments must now be considered in the context of the Buy-Out Objective and the selection of the buy-in policy.

As residual investments are realised to support the Buy-out Objective, proceeds will be held in low risk instruments such as cash.

Risks, including the ways in which they are to be measured and managed

The key risk to the Scheme is that the value of assets is insufficient relative to the value of the liabilities. This is called solvency risk and ultimately could lead to there being insufficient assets to secure all benefits.

There are many other individual risk factors which have the potential to contribute to solvency risk. Due to the complex and interrelated nature of these risks, the Trustee considers these in a qualitative rather than a quantitative manner in accordance with regulatory requirements.

In practice, these risks are minimised through the execution of the buy-in policy which requires the Insurance Provider to meet benefit payments as they fall due; and the laws that regulate the Insurance Provider and provide protection for policyholders.

As the Trustee retains overall responsibility for ensuring member benefits are met until the Buy-out Objective is achieved, its primary risk focus is now on the credit quality of the Insurance Provider. The Trustee measures and manages this risk (and the other risks relating to the Buy-out Objective) through professional covenant, actuarial / consulting and legal advice and through the terms of the buy-in policy and the expected buy-out. For example, the buy-in policy includes a collateralisation process to limit the Scheme's exposure to the risk of default of the Insurance Provider prior to the expected buy-out. In addition, termination clauses are in place such that the Trustee can terminate the policy at reasonable cost should the credit quality of the Insurance Provider deteriorate.

The expected return on investments

The nature of the buy-in policy is such that its expected return is equal to the change in value of the member benefits covered.

Assessment of the expected return on the residual assets has been delegated to the Fiduciary Manager, although this is less relevant now that the intention is to realise these positions.

The realisation of investments

The intention of the Trustee is to hold the buy-in policy until it is converted to a buy-out by 16 October 2021.

Liquidity

Now that the buy-in policy is executed, members' benefits will be matched by the premiums due to the Scheme under the policy.

Financially material considerations over the appropriate time horizon of the investments

The Trustee recognises that being a responsible investor can improve financial outcomes. The Trustee considers responsible investment to be the integration of financially material environmental, social and governance factors (including the potential impact of climate change) into investment decisions where financial risk and / or return could be materially affected ('ESG Factors').

ESG Factors are taken into account in relation to the Trustee's investment decisions where the Trustee is advised by the Fiduciary Manager or other appointed investment manager or professional adviser that they are relevant financially material considerations or where, in relation to any delegated decision making, the Fiduciary Manager or other investment manager considers them relevant to the selection, retention or realisation of investments.

In the context of the Buy-out Objective and in relation to the selection and appointment of the Insurance Provider and the buy-in policy, relevant aspects of the Insurance Provider's corporate governance and approach to risk management were assessed.

Following execution of the buy-in policy, the Trustee's expectation is that the scope for meaningful responsible investment over the appropriate time horizon of the investments will be significantly reduced. The appropriate time horizon of the investments is considered to be when the Buy-out Objective is achieved.

The extent to which non-financial matters are taken into account in the selection, retention and realisation of investments

The Trustee believes that by being a responsible investor, it is managing investment risk with the aim of enhancing long-term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme and consistent with its Primary Objective. Beyond these requirements of responsible investing, and given the Buy-out Objective and the nature of the Scheme's investments following execution of the buy-in policy, the Trustee does not proactively solicit the views of the members and beneficiaries when investing.

Nevertheless, the Trustee recognises that members and beneficiaries may have views on non-financial matters or other aspects of the Trustee's investment decisions such as the identity of the Insurance Provider. To the extent consistent with its legal and regulatory obligations, the Trustee reviews and considers communications of member and beneficiary views in the context of its Primary Objective.

The exercise of the rights (including voting rights) attaching to the investments

The Trustee's policy in relation to the exercise of any rights including voting rights attaching to investments is normally to delegate relevant decision making to its investment managers with monitoring and reporting provided by the Fiduciary Manager for pooled investments and the relevant investment manager for direct investments. The Fiduciary Manager encourages investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

For the buy-in policy, the Trustee would take appropriate professional advice as to whether and to what extent it was appropriate to exercise its legal rights under the policy.

Undertaking engagement activities in respect of the investments

The Trustee's policy in relation to undertaking engagement activities when investing is normally to delegate responsibility for monitoring and engaging with investment managers to the Fiduciary Manager for pooled investments and the relevant investment manager for direct investments. This includes monitoring and engaging on investment managers' voting records and investment managers' level of engagement with the underlying investments, where this is expected to have meaningful impact. Where the Fiduciary Manager considers this is appropriate this forms part of the Fiduciary Manager's investment reporting to the Trustee.

Following execution of the buy-in policy, the Trustee's scope for meaningful engagement activities in respect of the investments will be significantly reduced.

Arrangements with the Fiduciary Manager

The Trustee delegates various activities in relation to the Scheme's investments to the Fiduciary Manager as set out in this Statement. The Fiduciary Manager is responsible, in particular, for ensuring each underlying investment manager is aligned with the Trustee policies as set out below.

The Trustee keeps the Fiduciary Manager's performance under review. The Trustee's review process includes specific consideration of how the Fiduciary Manager has implemented the responsible investing policies and engagement activities included in this Statement.

The Fiduciary Manager's appointment could be terminated due to other factors such as a significant change in business structure or the investment team or where the Fiduciary Manager fails to ensure alignment between underlying investment managers and the Trustee's policies.

The Fiduciary Manager is paid a fixed fee in line with normal market practice, for a given scope of services which includes consideration of long-term factors, responsible investment and engagement. The Trustee reviews the costs incurred in managing the Scheme's assets annually.

Arrangements with all Investment Managers

The Trustee believes that an understanding of, and engagement with, Investment Managers' arrangements (including the Fiduciary Manager) is required to ensure they are aligned with Trustee objectives, including its Responsible Investment policy. In accordance with latest regulation, it is the Trustee's policy to ensure that the following are understood and monitored by the Fiduciary Manager:

- How investment manager arrangements incentivise investment managers to align their strategy and decisions with the Trustee's policies
- How investment manager arrangements incentivise investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or

equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

- The method (and time horizon) of investment managers' performance and their remuneration , however, responsibility for assessing the appropriateness of fees paid to investment managers in the delegated section forms part of the Fiduciary Manager's remit and discretion
- Portfolio turnover costs incurred by the investment managers, in the context of the investment manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold)
- Duration of the arrangement with the investment manager

The responsibility for monitoring these aspects day to day has been delegated to the Fiduciary Manager. They are responsible for ensuring each underlying investment manager is aligned with the Trustee's objectives and policies at the time of appointment or explaining why this is not the case. They are also required to report back to the Trustee on any areas of potential divergence between Trustee objectives and policies and investment manager practice on an ongoing basis, including their own.

Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the Fiduciary Manager where relevant, who will collate the qualitative and quantitative information required to allow the Trustee to review all of the above aspects in sufficient detail each year. The Trustee will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach. As noted earlier in this Statement, following execution of the buy-in policy, and in the context of achieving the Buy-out Objective, the Trustee's scope for meaningful engagement activities in respect of the investments will be significantly reduced.

Process for agreeing and reviewing this Statement

The Trustee has obtained written advice on the content of this statement from a suitably qualified investment adviser. The Trustee is satisfied that the investment adviser has the knowledge and experience required by the Pensions Acts to perform this role. The Trustee has also consulted the sponsoring employer, Asda Stores Limited, on the content of this Statement.

The Trustee monitors compliance with this Statement regularly and will review it at least every three years and immediately following any significant change in investment policy. At each review, further written advice from the investment adviser and consultation with the sponsoring employer will be sought.

Signed on behalf of the Asda Group Pension Scheme Trustees Limited as trustees of the Asda Group Pension Scheme:

Signed:	R Phillips	Signed:	D Cross
Name:	Richard Phillips	Name:	Duncan Cross
Date:	25/09/2020	Date:	28/09/2020