Statement of Investment Principles for Defined Contribution Section – John Lewis Partnership Pensions Trust
(September 2020)

Introduction

1 This Statement of Investment Principles ('SIP') sets out the principles governing investments for the John Lewis Partnership Trust for Pensions (the 'Trust' or the 'Scheme'), made by or for the Board of the John Lewis Partnership Pensions Trust (the 'Trustee'). This SIP is drafted in accordance with the requirements of Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 and regulations made under them; ("the Pensions Acts").

2 The Trust is a Registered Pension Scheme for the purposes of the Finance Act 2004.

3 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee has taken written advice from the Trust's Investment Consultant (Mercer) and has consulted with the employer, the John Lewis Partnership (the 'Partnership').

4 The Trustee is responsible for the Trust's investment strategy and for ensuring that this is recorded in the SIP. The Trustee delegates responsibility for the implementation and monitoring of the investment strategy to its Investment Sub-Committee ('ISC'). The ISC may engage with other investment advisers to assist in the Trust's selection of investment managers.

5 This document focuses on the high level principles of the Trustee. The details of the asset allocation and the implementation arrangements are matters for the ISC and will vary over time. The ISC will prepare and maintain a separate document, the Investment Policy Implementation Document, which sets out further details. That document does not form a part of the SIP. This document considers matters relating to the Defined Contribution ('DC') section of the Scheme only.

6 The DC section provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges.

7 In selecting appropriate investments, the Trustee is aware of the need to provide a default fund and a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

8 The Trustee last completed a review of its DC investment arrangements in September 2018.

Objectives

9 The Trustee's aim is to design a default investment strategy that will be suitable for the majority of members with the objective of enabling them to maximise the return of their DC pension savings while carefully managing the costs and investment risks.

10 The Trustee also aims to provide a range of other self-select investment options for members who wish to have a higher level of control over their savings and/or feel the default strategy does not meet their requirements and/or appetite for risk.

Investment Principles

11 The Trustee determines the investment strategy based upon the following investment beliefs:

- the appropriate measure for a successful investment strategy is the ability to maximise member outcomes; and
- the level of investment risk taken should be appropriate with a view to obtaining satisfactory returns, whilst protecting members to a large extent from significant reductions in the value of their pension account. This is achieved by diversifying the investments and by using various techniques to mitigate risk.

12 The Trustee has taken advice in determining an appropriate investment strategy for the DC section of the Trust, and has established:

- A default strategy known as the JLP Lifecycle; and
- A range of seven self-select investment options.

13 Certain legacy DC members invest with the Prudential With-Profits Fund.

Further detail about both the default and self-select options is provided in paragraphs 17 to 19.

14 The Trustee expects the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth. The long-term returns on bond and cash options are expected to be lower while providing less volatility than that of the predominantly equity options. The diversified growth funds options, which invest in, but not limited to, a mixture of equities, bonds, property and commodities, are still expected to provide excess return over inflation, but the returns are expected to be more consistent, with fewer fluctuations than the predominantly equity investment option. However, the return is likely to be lower over the long-term when compared to the predominantly equity options. Cash funds will provide protection against changes in short-term capital values, and may be appropriate for members who are approaching retirement and want to take some or all of their pension savings as cash when they retire.

15 The Trustee has delegated responsibility for the implementation and monitoring of the chosen investment strategy to the ISC.

16 The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments. The Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

Default Investment Strategy

JLP Lifecycle

17 When devising the phases and the mix of investment funds in the JLP Lifecycle, the Trustee has taken into account the expected returns on the different asset classes as summarised above in paragraph 14. This default option has been designed to be in what the Trustee believes to be the best interests of the majority of the members who do not make an active decision to invest in one of the self-select options based on the demographics of the Scheme's membership. The JLP Lifecycle has three different "phases" based on the time remaining until members reach their Target Retirement Age ('TRA'): the "Growth Phase"; the "Consolidation Phase"; and the "Pre-Retirement Phase". The mix of investment funds automatically switches depending upon the design of each phase. The default option balances between different kinds of investments (including use of both active and passive strategies) to seek to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the member and their expected retirement date.

– The Growth Phase (more than 15 years until TRA): The aim over these years is to achieve good long-term growth in excess of inflation. In the Growth Phase all contributions are invested in JLP Global Equity.

– The Consolidation Phase (between 15 and 7 years until TRA): The aim is to provide continued growth, but at a lower risk, by gradually switching investments from higher risk assets (JLP Global Equity) to lower risk assets (JLP Diversified Growth). The proportion of pension savings invested in JLP Diversified Growth gradually increases until members are ten years from TRA when 40% of their DC section savings will be in JLP Global Equity and 60% in the JLP Diversified Growth. This proportion remains fixed, until members are seven years from their TRA.

– The Pre-Retirement Phase (fewer than seven years to TRA): The aim is to provide some continued growth but increasing certainty for the value of members' pension savings by gradually switching investments into cash (JLP Cash), until all savings are invested in cash when members reach their TRA.

Self-select investment options

18 The investment platform offers the following investment funds for members who wish to have a higher level of control over their savings and/or who feel the default strategy does not meet their requirements and/or appetite for risk. If members self-select, they can combine the investment funds in any proportion in order to determine the balance between different kinds of investments. Each of the available funds is considered to be diversified across an appropriate number of underlying holdings / issuers.

White Label Fund Name	Benchmark	Objective
JLP Cash	7-day London Interbank Bid Rate ('LIBID')	• Aims to provide capital security and income by lending money to companies and governments over short periods of time (the target weighted average of the time to repayment of the loans from the fund is 60 days) • Low-risk offering a correspondingly low return

White Label Fund Name	Benchmark	Objective
JLP Annuity Protection	A composite of Gilts and Corporate bond funds	• Aims to provide diversified exposure to assets that reflect the investment underlying a typical traditional annuity product • Offer some protection against annuity price fluctuation
JLP Cautious Diversified Growth	Sterling 3-Month London Interbank Offered Rate ('LIBOR') + 3.5% per annum over a market cycle	• Aims to achieve a total return, in the form of capital growth and income returns, over the long-term whilst providing some protection against its value moving sharply down in changing investment conditions • The objective will be effected through strategic allocations to multiple asset classes • Targets 7% volatility over a market cycle
JLP Diversified Growth	33% 3-Month LIBOR + 5% per annum; 67% FTSE Developed World Index	• Aims to provide long-term investment growth through exposure to a diversified range of asset classes
JLP Global Equity	60% FTSE All World Index; 20% MSCI World Value + Momentum + Quality + Low Volatility Custom Diversified Multi-Factor Index; 10% MSCI Emerging Markets Index; 10% MSCI World Small Cap Index	• Aims to track passively the performance of a blend of global equity indices
JLP Ethical Equity	FTSE4Good Global Equity Index	• Aims to track passively the performance of the FTSE4Good Global Equity Index to within +/- 0.5% per annum

White Label Fund Name	Benchmark	Objective
JLP Shariah Equity	Dow Jones Islamic Titans 100 Index	• Aims to create long-term growth by investing in a diversified portfolio of companies from around the world that are compliant with Islamic Shariah principles and seeks to match the performance of the Dow Jones Islamic Titans 100 Index

19 Certain members of the Scheme are able to continue contributing to the Prudential With Profits fund. This is not an option available to new joiners or anyone who does not already contribute to this fund. The fund is invested in a diversified portfolio of UK and overseas shares, bonds, property and cash which aims to achieve long-term real returns. Investment returns are passed to policyholders through bonuses which are intended to smooth the peaks and troughs of equity markets.

Investment Management

20 In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy, but delegates the responsibility for selection of specific investments to its appointed investment managers. The investment managers are expected to possess the skills and expertise necessary to manage the investments of the Trust competently.

21 The Trustee is not involved in the investment managers' day-to-day operations and does not directly seek to influence attainment of their return objectives. The Trustee maintains processes to ensure that performance is assessed on a regular basis against measurable objectives for each manager, consistent with the achievement of the Trust's long-term objectives, and an acceptable level of risk.

Responsible Investment

22 The Trustee has adopted the following policy on responsible investment:

- The Trustee’s fiduciary duty is to select a suitable default arrangement for the accumulation of the member’s account and to provide an appropriate range of funds for those members who wish to self-select. The default investment strategy, therefore, needs to aim to give members a means to build up a good retirement income based on the memberships’ contribution level, duration of saving and tolerance for risk. In this respect members are long term investors. The Trustee also needs to ensure that the self-select options meet the requirements of members

- The Trustee believes that environmental, social and governance (‘ESG’) factors, including climate change, can have an impact on the long-term performance of DC investment funds and, therefore, that the management of ESG risks can assist the Trustee in fulfilling its investment duties

- The Trustee formally reviews the DC investment options at least every three years. This includes whether the default fund remains appropriate for the majority of members. As part of this review, the Trustee will consider whether ESG risks and opportunities are being managed effectively by the default fund manager. The Trustee will take advice from Mercer when making this assessment. Mercer will also be asked to advise on the range of self-select funds and will include financially material ESG factors as part of that review

- The Trustee will not take into account non-financial factors in the investment decision making, or monitoring process of the default fund. In relation to the member options, the Trustee will consider whether it is appropriate to take into account member views during each review of the DC investment options, which takes place at least every three years

- The Trustee believes that active ownership can enhance the value of the Scheme's underlying portfolio and help manage risks. In September 2018, the Trustee became a signatory to the Principles for Responsible Investment. The Trustee reviews its stewardship policy to ensure that it continues to hold its investment managers to account on voting and engagement

- The Trustee's ESG policy is reviewed at least every year.

Investment Managers Monitoring and Engagement

23 The policy in relation to the Trustee's arrangements with its investment managers is set out below in sections 24-28.

24 Incentivising investment managers to align their investment strategy and decisions with the Trustee's policies:

- The Trust's investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the specific asset class / strategy sought.

- The Trustee looks to its investment advisers for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view is based on the advisers' assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund in which the Trust invests. The advisers' manager research ratings assist the Trustee with the due diligence and questioning of managers, which are used in decisions around selection, retention and realisation of manager appointments.

- If the investment objective of a particular fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

- Some appointments are for active management approaches and those managers are incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds on an ad-hoc basis.

- As the Trustee also invests in pooled investment vehicles it accepts that it has no ability to specify the risk profile and return targets beyond those applying to the particular investment vehicle, and therefore selects those vehicles on that basis and to align with the overall investment strategy.

25 Incentivising the investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer, and to engage with issuers in order to improve their performance in the medium to long-term:

- The Trustee will consider the investment advisers' assessment of how the investment managers embed ESG into their investment process. In addition, the Trustee will request information about an investment manager's ESG policies and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment manager's policy on voting and engagement.

- The Trustee may challenge the decisions made by the investment managers on their voting history and engagement activity. In addition, the ISC will meet with the investment managers as and when required at ISC meetings.

- The Trustee delegates all voting and engagement activities to the investment managers. When required the Trustee will question managers' voting decisions if it deems them out of line with the investment fund's objectives or the objectives / policies of the Trust.

- The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then they will look to replace the manager.

26 Aligning the evaluation of the investment managers' performance and the remuneration for investment management services with the Trustee's policies:

- The Trustee's focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner. The Trustee reviews both absolute and relative performance (net of fees) against a portfolio or underlying investment manager's benchmark on a quarterly basis, including assessments of both shorter and longer time horizons.

- The remuneration for investment managers used by the Trust is based on assets under management; the levels of these fees are reviewed annually to ensure they continue to represent value for members. If performance is not satisfactory, the Trustee may request further action be taken, including a review of fees.

27 Monitoring portfolio turnover costs incurred by the investment managers:

- Portfolio turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members assessment. The ability to assess the appropriateness of these costs is currently limited by the availability of data and the lack of industry-wide benchmarks. The Trustee will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.

28 The duration of the arrangements with the investment managers:

- The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis.

- All funds have no set duration for the manager appointments.

- The Trustee is responsible for the selection, appointment, monitoring and removal of the investment managers.

- The available self-select fund range and default investment option are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default option or self-select fund range.

Risk

29 The Trustee recognises the key risk is that members will have insufficient retirement income relative to their expectations. The Trustee considered this risk when setting the investment options and strategy for the Trust.

30 The Trustee considers the following sources of risk in designing the investment options:

- **Inflation risk:** The risk that the investment return over members working lives does not keep pace with inflation. It is measured by considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation. The Trustee manages this risk by providing members with a range of funds, across various asset classes, with the majority expected to at least keep pace with inflation. Members are also able to set their own investment allocations, in line with their risk tolerances.

- **Conversion risk:** The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in the pension and cash lump sum secured. It is measured by considering the returns of the funds used within the switching phase of the lifecycle strategy. Lifecycle strategies and the suitability of the default investment option are reviewed at least triennially. It is managed by offering a lifecycle strategy that automatically switches member assets as they approach retirement into investments that are expected to be less volatile relative to how they wish to access their pension savings. The lifecycle strategy increases the proportion of assets that more closely match the expected retirement destination as members approach retirement. This aims to reduce the risk of a substantial fall in the purchasing power of their accumulated savings near retirement.

- **Opportunity cost risk:** The risk that members end up with insufficient funds at retirement with which to secure a reasonable income through not having taken enough risk whilst the opportunity was available. It is measured by considering the returns of the funds used within the switching phase of the lifecycle strategy. It is managed by offering a range of funds which members can use to invest in line with their risk tolerances and also by reviewing the suitability of the lifecycle strategy at least triennially.

- **Manager risk:** The risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This is measured by the Trustee monitoring the performance of the investment funds on a quarterly basis. It is managed by the Trustee providing members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their risk tolerances. In addition, the Trustee monitors any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

- **Capital risk:** The risk that the monetary value of members' funds falls. It is measured by considering the returns and risks of the funds offered to members. Consideration is also given to the time period remaining for members to recoup any capital value losses in the run up to their target retirement date when designing the lifecycle strategy. It is managed by offering a lifecycle strategy that automatically switches member assets as they approach retirement into investments that are expected to be less volatile relative to how they wish to access their pension savings.

- **Suitability risk:** The risk of the default strategy being unsuitable for the requirements of some members. The Trustee recognises that there is a risk that the default is not suitable for all members but aims to manage this risk by offering a default strategy that is suitable for the majority of members and regularly reviewing its ongoing appropriateness. A range of self-select funds are also offered should the default not be suitable for some members.

– **Operational risk:** The risk of fraud, poor advice or acts of negligence. 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. From an investment perspective, this risk is measured by considering the ratings of investment strategies from the investment advisers and monitoring these on an ongoing basis. It is partially managed by incorporating the ratings into the regular review process and carrying out periodic reviews of the managers' operational credentials.

31 Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Trustee's policy is to review the range of funds offered and the suitability of the default strategy, and its performance, at least every three years, or earlier if there is a significant change in either the investment policy or demographic of the relevant members.

32 The risks identified above are considered by the Trustee to be 'financially material considerations'. The Trustee believes the appropriate time horizon within which to assess these considerations should be viewed by the Trustee at a member level. This will be dependent on the member's age and their selected retirement age.

Further Information

33 The Annual Report and Accounts for the Trust are published in July every year and are available on the Partner intranet. For more information on the Trust's investment strategy please contact Imtayaz Ahmed (Pensions Investment Manager) 020 7931 4678 (External) and 777-3678 (Internal).

Signed: ***Sarah Bates***

Name: Sarah Bates, Chair, John Lewis Partnership Pensions Trust

Date: 25 September 2020

Authorised for and on behalf of the Trustee of the Trust