Statement regarding Defined Contribution ("DC") Governance for the period 1 April 2020 to 31 March 2021

Introduction

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require trustees to include an annual statement regarding governance in relation to DC arrangements in their annual report. This statement has been prepared by John Lewis Partnership Pensions Trust ("the Trustee"), the trustee of the John Lewis Partnership Trust for Pensions ("the Scheme") in accordance with statutory requirements to describe how the Trustee has met the statutory governance standards for the Scheme's DC benefits for the period 1 April 2020 to 31 March 2021 ("the Scheme Year").

Impact of COVID-19

As set out in the Trustee's Report, the COVID-19 pandemic has adversely impacted global commercial activity. Measures introduced by government have helped support financial markets, including the value of DC pensions.

Despite the continued disruption caused by COVID-19, at the date of this statement, the measures that were put in place continue to ensure the safety of everyone involved and that the administration of the Scheme can operate as efficiently as possible. Throughout the Scheme Year, guidance issued by the Pensions Regulator is monitored on a regular basis. Due to continued restrictions however, some of the Service Level Agreements at a process level have continued to be impacted, but are not indicative of a deterioration of the governance arrangements the Trustee has put in place. As restrictions continue to be eased, these are expected to improve.

Members are reminded that saving towards retirement in a pension scheme is for the long term, and extreme caution is advised if decisions are taken in response to current events where the outcome is uncertain, particularly when their retirement may be many years away.

Default arrangement

DC pension schemes may have "default arrangements" which are, broadly, the default investment option for scheme members who do not otherwise make an active investment decision. There are additional statutory governance requirements for default arrangements to encourage good outcomes for members.

(i) The Scheme's default arrangement

For members who do not make an active investment choice, on joining the DC section of the Scheme contributions are automatically invested in JLP Lifecycle, a fund specifically designed for the Scheme by the Trustee after taking appropriate investment advice.

The JLP Lifecycle has three distinct phases: growth, consolidation, and pre-retirement. During the growth phase, contributions are invested in return seeking assets in the JLP Global Equity fund. During the consolidation phase (between 15 and 7 years to a member's target retirement date), investments are gradually transferred to the JLP Diversified Growth fund, which is a lower risk fund, but which retains the opportunity for further investment growth. In the final 7 years, investments gradually switch into the JLP Cash fund, so at target retirement age they are held 100% in the cash fund.

The JLP Global Equity fund is a 'passive tracker' fund, which tracks a blend of multiple global equity indices, and includes stocks and shares across many sectors including the companies of household names such as Apple and Microsoft. The JLP Diversified Growth fund is actively managed, and includes investments in company shares, government and corporate bonds, and commercial property and commodities. The JLP Cash fund invests in various cash-like instruments which include short term loans (typically no longer than 60 days) to companies and governments.

By investing in this manner, the Trustee expects to deliver sufficient growth during a member's lifetime within the Scheme without excessive risk taking, with an increased focus of reducing volatility to enable members approaching their target retirement date to make financial plans for the period after that.

Default arrangement (continued)

(ii) Review of the default arrangement

Strategic triennial review

The Scheme's default arrangement is reviewed on at least a triennial basis or following any significant changes in the demographics of the membership. The Trustee last conducted a review of the default arrangement in September 2018.

The latest triennial review of the strategy and performance of the default arrangement commenced in April 2021, and is expected to be completed later in 2021. Areas being considered include improving the incorporation of ESG factors in line with the Trustee's policy on responsible investing, and considering options to improve inflation protection for the cash fund option. The expected impact on members' projected outcomes at retirement under different scenarios which reflect any proposed changes will be modelled and analysed. The outcome will be compared to the expected outcome from the existing strategy in order to ensure that the changes should improve members' outcomes on a risk adjusted basis.

Regular monitoring

In addition to the triennial strategic review the Trustee also reviews the performance of the default arrangement against its aims, objectives and policies on an annual basis. This review includes an analysis of fund performance and member activity to check that the risk and return levels meet expectations.

(iii) Statement of Investment Principles

The Trustee is responsible for investment governance, and this includes setting and monitoring the investment strategy for the default arrangement.

Details of the objectives and the Trustee's policies in relation to the default arrangement (and other DC investment funds which members can choose) are set out in a document called the Statement of Investment Principles ("SIP"). The SIP for the Scheme's DC section is attached to this statement.

The aims and objectives of the default arrangement are set out in paragraphs 9 and 10 of the SIP. The Trustee's key aim is to design a default that will be suitable for the majority of members to enable them to maximise the return on DC pension savings while carefully managing the costs and investment risks. The Trustee's policies in relation to the kinds of, and the balance between, investments to be held in respect of the Scheme's default arrangement are set out at paragraph 17 of the SIP.

In designing the default arrangement, and selecting other investment options, the Trustee takes into account social, environmental and other considerations where they have financial implications. The Trustee's policies in relation to risks, expected return, realisation and environmental, and social and governance factors in respect of the Scheme's DC investments (including the default arrangement) are set out at paragraphs 9, 23 to 26, 14, 16 and 22 respectively of the SIP.

Maintenance of the SIP in respect of DC investments is now delegated to the Trustee's Defined Contribution Sub-Committee ("DCC"), although during the Scheme Year it remained the responsibility of the Investment Sub-Committee. The SIP is reviewed on at least an annual basis, with the last review being completed on 25 September 2020.

Other investment options

In addition to the default arrangement, seven other self-select fund investment options are available to members of the Scheme's DC section to choose from.

As part of the last strategic review of the default arrangement in 2018, the opportunity was also taken to consider the on-going suitability of the self-select fund options. The Trustee concluded that the self-select options all remained appropriate, and no changes were considered necessary. These are being considered again as part of the triennial review currently in progress. These additional investment options continue to be regularly reviewed and monitored outside the triennial review on a similar basis to the default arrangement.

For those members who actively contribute to the Prudential with-profits fund, neither the JLP Lifecycle nor the additional self-select investments are available investment choices.

Processing Scheme transactions

The Trustee has a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to the DC section are processed promptly and accurately.

These transactions are undertaken on the Trustee's behalf by the Pension Operations department of John Lewis Partnership plc and Legal & General Assurance Society Limited ("Legal & General" or "L&G"), being the administrators of the DC section of the Scheme, and Prudential who invest and disinvest contributions as instructed held in the with-profits fund.

Detailed Service Level Agreements ("SLAs") are in place with both Pension Operations and Legal & General. The overall SLA target agreed with the Trustee is 90% for Pension Operations and 95% for L&G. Individual SLAs, which cover areas such as allocating contributions to member accounts, providing quotes and payment for all major benefit categories, and responding to member queries, have been kept under review throughout the Scheme Year to ensure they remain appropriate for the activities undertaken.

Pension Operations and L&G as the Scheme's administrators have confirmed that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately. The key processes adopted by the Trustee to ensure this, and that the SLAs are met, are as follows:

- The Trustee monitored core financial transactions during the Scheme Year by reviewing regular reports from both administrators who report to the Administration and Communication Sub-Committee (and now to the Membership Sub-Committee) on a quarterly basis to check whether core financial transactions were accurate, up to date and completed within statutory timeframes and within service levels agreed with these parties. Using this information, the Trustee is satisfied that, during the Scheme Year:
    - The administrators have achieved the overall SLA target. For any failure to meet a specific SLA, the Trustee ensured that this was investigated and resolved by the administrators.
    - Monthly meetings occurred between members of the Trustee Executive (a team of nine Partnership employees whose sole responsibility is to support the Trustee in carrying out its fiduciary obligations) and administrators to discuss any issues arising relating to operational procedures.
    - Quarterly reporting provided by the administrators to the Trustee gives further detail of any administration issues, delays and member complaints that occurred during the reporting period. This included background information on the issues, how these have been corrected and any actions that have been agreed in order to resolve outstanding issues.
- Operational controls and procedures include daily cash reconciliations, reconciliations of payroll records to contribution receipts and member records. Requests to process benefits are put into an automated workflow process to assist in ensuring payments are made on a timely basis.

Whilst the effects of the UK Government's national lockdown restrictions as a result of COVID-19 have continued, the Scheme's administrators' working practices to minimise disruption to services have similarly evolved. The main area where the SLA has consistently remained below expectation is in relation to transfers out. In light of statements from the Pensions Regulator during the COVID-19 crisis and noting the small number of members affected, the Trustee does not regard this drop in the SLA as material in respect of the requirements to ensure that core financial transactions are processed promptly and accurately. The Trustee is satisfied that efforts both during the period in the Scheme Year in question and subsequently continue to keep any disruption to a minimum, and recognise that some underperformance relative to the SLA may continue in the short term, but is expected to improve over the medium term.

The Trustee considers that during the Scheme Year the requirements for processing core financial transactions specified in the Administration Regulations continue to have been met and it had no major concerns with the administration of the Scheme.

Transaction costs

Charges and transaction costs

The Trustee is required to set out the on-going transaction costs and charges incurred by members during the Scheme Year in this Statement. When preparing this section of the Statement, including the illustration of the cumulative effect of charges and costs on fund values, the Trustee has taken account of the relevant statutory guidance.

In accordance with regulation 25(1)(a) of the Administration Regulations, the Trustee calculated the charges and transaction costs borne by members of the Scheme during the Scheme Year as set out in the following table:

Fund name	AMC %	FMC %	Hosting fee %	Transaction charges %
JLP Lifecycle (default)*	0.15	0.07 - 0.20	0.01 - 0.02	0.01-0.03
JLP Global Equity Fund	0.15	0.08	0.02	0.01
JLP Diversified Growth Fund	0.15	0.28	0.01	0.04
JLP Cautious Diversified Growth Fund	0.15	0.31	0.03	0.24
JLP Ethical Equity Fund	0.15	0.31	n/a	0.01
JLP Shariah Equity Fund	0.15	0.33	0.03	0.03
JLP Annuity Protection Fund	0.15	0.12	n/a	0.04
JLP Cash Fund	0.15	0.07	n/a	0.00
Prudential With-Profits Fund	0.47	n/a **	n/a	0.11
Aviva	0.67	n/a **	n/a	0.14

FMC: Fund Management Charges relate to the specific investment fund, and are deducted from the fund value to cover costs such as research, investment selection and the custodian for the fund vehicle.

AMC: the Annual Management Charge is a product charge visible to members when accessing Manage Your Account. If a member holds assets in more than one fund with Legal & General, the AMC is calculated at a rate of 0.15% of the total fund value.

Hosting fee: for the 'JLP' series of funds, an additional hosting fee is applicable where the underlying funds include non-Legal & General fund managers. Where relevant, the hosting fee forms part of the stated FMC.

** Costs and charges incurred for members of the default fund vary as a member reaches retirement, and the proportion of funds held in the default component funds (JLP Global Equity Fund, JLP Diversified Growth Fund and JLP Cash Fund) transition from 100% in the JLP Global Equity Fund to 100% in the JLP Cash fund. As a result ranges for transaction charges for the default fund have been provided.*

*** The Prudential and Aviva have been unable to distinguish between their respective FMC and AMC. Therefore only a combined AMC is provided.*

All amounts are expressed as a percentage of the total fund, which can then be used to apply to a member's investment in that fund.

Transaction charges relate to investment transaction costs as a result of the buying, selling, lending or borrowing of investments and relate to, for example, stamp duty payable to the Government when a fund trades in equities, or maintenance costs when a fund holds a commercial property. These charges are borne by the fund and the level of these charges has a direct impact on the growth of the fund.

All costs in connection with the management and administration of investments held with Legal & General are borne by scheme members. For those held with Prudential, the cost of maintaining member accounts is borne by the Employer, with all other costs borne by members.

The Trustee has also requested cost information for investments held with Phoenix Life (formerly London Life) who have been unable to provide the required information. The Trustee is continuing to seek this information from Phoenix Life on a regular basis.

Cumulative effect of charges and costs on fund values

To assist members with assessing the cumulative effect that charges and costs may have on their total fund value over time, the following three example illustrations are provided:

	Fund value at 31 March 2021: £8,000		Fund value at 31 March 2021: £13,000		Fund value at 31 March 2021: £21,000	
	Monthly contribution: £260		Monthly contribution: £434		Monthly contribution: £694	
	Fund value		Fund value		Fund value	
Fund value at the end of year	No charges	After all charges	No charges	After all charges	No charges	After all charges
	£	£	£	£	£	£
1	11,283	11,257	18,473	18,430	29,756	29,686
3	17,825	17,716	29,377	29,200	47,202	46,916
5	24,344	24,116	40,244	39,868	64,589	63,984
10	40,634	39,926	67,393	66,224	108,027	106,149
20	73,858	71,339	122,755	118,578	196,612	189,917
30	109,281	103,596	181,765	172,326	291,046	275,922
40	138,813	127,868	230,968	212,781	369,780	340,649
45	137,128	124,992	228,192	208,021	365,320	333,013

Source: Legal & General

For the purposes of the illustrations:

- The JLP Lifecycle fund has been used as this fund is used by the majority of members for their DC section savings
- The stated fund sizes at 31 March 2021 have been estimated using typical salary ranges for a member who joined the Scheme at the earliest opportunity and has reached eligibility for the additional Partnership contribution
- The contribution rate assumption below presumes the member makes sufficient contributions to benefit from the maximum matching contribution available from the Employer and the additional Partnership contribution rate available as at 31 March 2021.
- The transaction costs are based on the average yearly costs incurred, measured over a period of up to the last five years.

In providing these illustrations, the following assumptions have been made which are designed to reflect the Scheme's membership profile:

- The member's starting age is 23
- The member's planned retirement age is 68
- The starting total monthly contribution includes all member and employer contributions, and remains fixed at a total of 20% of salary, although the monetary amount will increase over time as salary increases

Cumulative effect of charges and costs on fund values (continued)

- The member qualifies for the employer's additional contribution as a result of having completed the 'waiting period'
- That contributions would continue to be paid every month until retirement
- Inflation remains fixed at 2.5% each year
- The values shown are estimates and are not guaranteed
- Annual returns on investments vary over time as the proportions of investments held in the component funds of the default fund change as members progress towards retirement. The real, after inflation, long term investment return assumptions used for each component fund are:

Component fund name	Growth rate %
JLP Cash Fund	-2.2
JLP Global Equity Fund	2.0
JLP Diversified Growth Fund	0.7

The purpose of the illustrations is to demonstrate the impact of costs on the final fund value. The final fund value is subject to market fluctuations and the actual amount of contributions paid in and may be lower or higher than the values presented here and are not guaranteed.

To assist with comparison against fund providers, by 31 October 2021, this information will also be made available on the following website: https://www.johnlewispartnership.co.uk/meta/jlp-trust-for-pensions.html

Value assessment

The Administration Regulations also require trustees to assess the extent to which the charges and transaction costs set out above represent good value for members. The Trustee, with the assistance of a third party consultant, has assessed the extent to which the charges set out above represent good value for members for the Scheme Year.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. An assessment was undertaken taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

The Trustee reviews all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme.

The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment.

The assessment for the Scheme Year included:

- A review of the performance of the Scheme's investment funds in the context of their investment objectives compared to the level of charges payable by members; and
- A review of the non-financial benefits of the Scheme, including the quality of administration and member services, communications, scheme management and governance and investment governance.

The results of the assessment concluded that:

- Overall, the Scheme provides good value for members;
- The combined AMCs and FMCs for the funds chosen by the Trustee are well within the maximum limit of 0.75% allowed for default investment funds. The fund charges are competitive for the types of fund available to members and are challenged by the Trustee where necessary; and

Statement regarding Defined Contribution Governance for the period 1 April 2020 to 31 March 2021 (continued)

Value Assessment (continued)

- Member borne charges for self-select investment choices provide reasonable value for the services offered;

The following table sets out investment returns for the 12 months ended 31 March 2021, and since the respective funds' inception compared to their relevant benchmarks.

Fund name	1 year to 31.03.21		Annualised return since inception	
	Fund return %	Benchmark return %	Fund return %	Benchmark return %
JLP Global Equity Fund	45.1	44.0	11.8	11.7
JLP Diversified Growth Fund	19.8	32.2	7.5	10.1
JLP Cautious Diversified Growth Fund	13.2	3.6	4.0	4.0
JLP Ethical Equity Fund	41.6	42.2	15.3	16.0
JLP Shariah Equity Fund	35.4	36.4	17.4	17.7
JLP Annuity Protection Fund	2.7	3.1	5.6	5.7
JLP Cash Fund	0.1	0.0	0.5	0.3
Prudential With-Profits Fund *	1.7	n/a	8.9	n/a
Aviva *	0.5	n/a	n/a	n/a

** The Prudential have confirmed that returns to 31 March 2021 are not available. Return figures are based on the year to 31 December 2020. Neither the Prudential nor Aviva provide formal benchmarks for their funds. When determining the funds available to members, the Prudential With-Profits fund utilises a profit-sharing arrangement whereby 90% of the profits are allocated to member funds, and 10% are paid to the fund's shareholders.*

*** In most cases, investment returns are stated net of fees. For the JLP series of investments, investment returns are net of fund management fees, but gross of any hosting fees and other expenses as set out in transaction costs table.*

The returns for those members invested in the Scheme's default fund, JLP Lifecycle, are more complex to present. This is because the proportions invested in the JLP Global Equity Fund, JLP Diversified Growth Fund and the JLP Cash Fund which make up the JLP Lifecycle gradually change from being invested 100% in the JLP Global Equity Fund to 100% invested in the JLP Cash Fund as a member progresses towards their planned retirement date as described in the default arrangement section above.

As a result of this, returns for JLP Lifecycle are presented based on the numbers of years left to retirement, compared to the benchmark as set out in the following table.

Years to retirement	1 year to 31.03.21		Annualised return since inception	
	Fund return %	Benchmark return %	Fund return %	Benchmark return %
15 years to retirement *	40.1	39.3	13.0	12.8
10 years to retirement	27.5	33.5	9.8	11.4
5 years to retirement	20.7	25.8	7.8	9.8

** For those with at least 15 years to retirement, the fund proportions in the lifecycle fund are the same. As a result, the investment returns are the same where a member's retirement date is 15 years or more.*

In producing these returns, the following assumptions have been made:

- First contribution made at inception on 1 December 2015

Statement regarding Defined Contribution Governance for the period 1 April 2020 to 31 March 2021 (continued)

Value Assessment (continued)

- Contributions paid remain unchanged throughout the entire period
- Members have only ever invested in JLP Lifecycle since 1 December 2015

It should be noted that saving for income in retirement is for the longer term, therefore if experienced, short term underperformance should be assessed against the time to retirement. The Trustee monitors investment performance on at least a quarterly basis so that action can be taken to ensure that long term objectives continue to be met.

During the Scheme Year, the Trustee reviewed its governance arrangements, and made changes which took effect from 1 January 2021. Whilst the resulting changes have had limited impact during the Scheme Year, at the date of this statement, improvements have been seen as the revised processes have enabled the Trustee, and its sub-committees, to be better aligned in their decision making. The largest impact for the DC section of the Scheme has been the establishment of a Defined Contribution Sub-Committee ("DCC"). This will ensure that benefit provision for DC section members will be scrutinised by a dedicated committee. This was seen as being critical to the future development of the Scheme, particularly as going forward DC Section benefits for all members become more important. An additional committee, the Membership Sub-Committee ("MSC") has also been established. Its role is to look after the member experience at an individual and holistic level. This committee was deemed necessary to ensure that the needs of the wide range of differing members are met in a co-ordinated way, which might not be related solely to the DC section. The DCC and MSC will work closely together to ensure that both of their respective remits are delivered.

In determining the results of the assessment, the Trustee's conclusions for the following key areas were:

- **Governance – improving:** A strong governance structure is in place, with oversight from the Trustee reducing the risk of bad outcomes. The governance arrangements are subject to periodic independent review to ensure they remain fit for purpose. The 'improving' rating follows the introduction of a revised structure late in the year where there is insufficient experience to determine how well it is working. It will be kept under close review during the next Scheme Year.
- **Investments – good:** Overall, all available investment options provide good value to members, and are regularly monitored to ensure this remains the case.
- **Administration – good:** a combination of in-house and outsourced provision increases overall complexity, with the overall SLA having improved since the last review. From time to time temporary drops for specific activity are experienced which the Trustee and administrator seek to address at the earliest opportunity.
- **Retirement options – reasonable:** As at the date of this statement, the retirement offering meets the needs of the majority of members. This remains under review as the DC section continues to develop and the needs of the members change.
- **Charges – good:** Members bear the cost of administration and are competitive relative to the market place. Charges are regularly reviewed to ensure that this remains the case.
- **Communication & Engagement – improving:** The Trustee issues timely and relevant information to members. An on-going review of communications takes place to ensure best practice is maintained. In the year, improvements to the retirement modeller, and the introduction of a budgeting tool has enabled members to better understand their financial position, and therefore help in making more informed decisions when planning for current and future income needs. The 'improving' rating reflects on-going work in this area still to be concluded, which will be kept under review during the next Scheme Year.

As a result of the above, overall, based on this value for members assessment, the Trustee is satisfied that relative to achieving good outcomes at retirement, these costs represent good value for money for members.

Trustees' knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7, 'Trustee knowledge and understanding ("TKU")'.

The Trustee Directors have a TKU process in place which enables them, together with the advice available to them, to exercise their functions as Trustee of the Scheme and to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including the principles relating to the funding and investment of occupational pension schemes and pensions and trust law.

During the Scheme Year this included, for example:

- Review of the effectiveness of DC governance against the objectives of the Scheme's business plan as part of a wider Scheme governance review. This resulted in the establishment of the DCC.
- Maintenance of a detailed business plan by the Trustee Executive. Implementation of the business plan's objectives is monitored by the Trustee's sub-committees. Each sub-committee generally meets quarterly and reports at each quarterly Main Trustee Board meeting for wider discussion and evaluation. This framework helps to ensure that the Trustee Directors are maximising input from subject experts within the Trustee as a whole and that the Scheme objectives are effectively delivered. Determining individual membership of each sub-committee is based on factors such as relevant experience, and interest in the purpose of the sub-committee as well as maintaining a balance between elected and appointed directors.
- When ensuring legislative requirements are met, the Trustee Directors consult the Scheme's Trust Deed & Rules and associated documents (including the SIP and the documents setting out the Trustee's current policies) and seek appropriate professional advice. The Trustee obtains legal advice on various aspects of these documents, in particular, the Scheme's Trust Deed & Rules and any amendments, such that they have a working knowledge of these documents.
- Individual Trustee Directors take personal responsibility for keeping themselves up-to-date with relevant developments through both internal and externally hosted courses in the following ways:
- All Trustee Directors aim to have at least 10 hours of formal training each year. This is achieved via a combination of attending externally hosted seminars and training sessions along with bespoke training incorporated into regular Trustee and sub-committee meetings on topical areas. Training sessions attended include approaches to investment by master trusts, and attending forums discussing decumulation and investment pathways. To assist in setting its priorities, the DCC also received an update on the current landscape in the DC sector which included a discussion relating to pension savers' behaviours and the development of the DC retirement options market.
- Individual training records are maintained, and reviewed annually by the Chair of Trustees to identify any knowledge gaps, if any.
- Additional training is made available to individual Trustee Directors or to the whole Trustee body for relevant topics as appropriate.
- All of the current Trustee Directors who have been in post for at least six months have completed the Pensions Regulator's Trustee Toolkit. The Trustee Toolkit is a free, online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes.
- Training for new Trustee Directors also includes a one-day course, "An Introduction to Trusteeship".
- The Trustee receives advice on investment, legal, actuarial, communication and other related issues from its advisers.

Statement regarding Defined Contribution Governance for the period 1 April 2020 to 31 March 2021 (continued)

Trustees' knowledge and understanding (continued)

For the reasons set out above, the Trustee Directors' combined knowledge and understanding, together with the advice available to the Trustee Board, enables them to properly exercise their functions as Trustee of the Scheme.

Sarah Bates

Sarah Bates
Chair of the Trustee

Date: 24 September 2021

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