

# Statement regarding Defined Contribution (“DC”) Governance for the period 1 April 2021 to 31 March 2022

## **Introduction**

The Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended (“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 2021 to 31 March 2022 (the “Scheme Year”).

## **Impact of COVID-19 and the Russian invasion of Ukraine**

The year ending March 2022 was challenging for investment markets because of the uncertainty created by the COVID-19 pandemic. Despite the continued restrictions caused by COVID-19, appropriate processes and procedures were put in place to ensure the administration of the Scheme continued to operate as efficiently as possible. The administration of the Scheme is carried out by both the Pension Operations department of John Lewis Partnership plc and Legal & General Assurance Society Limited (“L&G”). The Trustee has Service Level Agreement (“SLA”) targets in place with both Pension Operations and L&G. Both Pension Operations and L&G met their SLA targets for all quarters of the Scheme Year.

The Russian invasion of Ukraine has caused greater than usual volatility in the values of many investments since February 2022. The sanctions imposed on Russia may also have longer-term economic impacts which could affect future investment returns. While no significant changes to how the DC Section of the Scheme is investing are planned at present, the Trustee is monitoring the situation with the help of its advisers. The Trustee regularly reminds members that saving towards retirement in a pension scheme is for the long term.

## **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 choice on their investments. There are additional statutory governance requirements for default arrangements to encourage good retirement 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 the JLP Lifecycle, an investment option which was specifically designed for the Scheme by the Trustee after taking appropriate investment advice. This is the sole default arrangement for the Scheme.

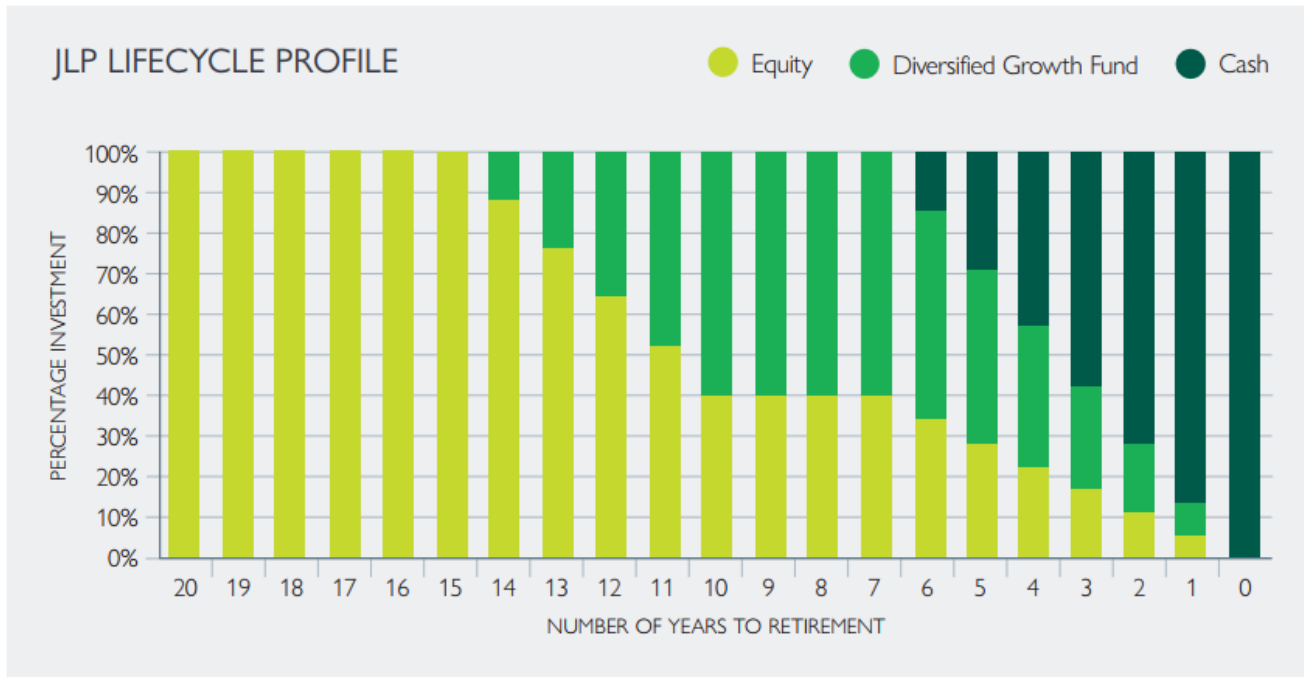
The JLP Lifecycle is a lifestyle investment strategy. A lifestyle investment strategy is an approach that aims to reduce the amount of investment risk your pension savings are exposed to in the years leading up to your retirement. Your pension contributions are initially invested in a fund that offers the potential for long-term growth. As you approach retirement, the strategy automatically switches your pension savings and new contributions into lower risk funds in the expectation that many savers will take their DC pension savings as cash. This reduces (but doesn't remove) the risk of losing a significant amount if there was a market crash in the period leading up to your retirement.

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 (the pre-retirement phase), investments currently gradually switch into the JLP Cash fund,

John Lewis Partnership Pensions Trust  
so at target retirement age they are held 100% in the Cash fund.

- This is shown in the following chart:



Source: Mercer

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 and countries including the companies of household names such as Apple and Microsoft.

The **JLP Diversified Growth fund** is actively managed and aims to outperform its benchmark. It includes investments in company shares, government and corporate bonds, 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 the investments to deliver sufficient growth during a member's lifetime within the Scheme without excessive risk taking, with an increased focus on reducing volatility to enable members approaching their target retirement date to make financial plans for the period after that.

## **Review of the default arrangement**

### **Strategic triennial review**

The Scheme's default arrangement is reviewed at least every three years or following any significant changes in the demographics of the membership.

The latest review of the strategy and performance of the default arrangement was completed on 8 December 2021. The review considered the aims and objectives of the default arrangement, the demographic of the Scheme's membership, members' likely choices at retirement, retirement experience and the at-retirement target and the design of the default. It considered all three phases (growth phase, consolidation phase and pre-retirement phase) as well as how to incorporate Environmental, Social and Governance issues and sustainable investment.

The recommendations following this review were to delay the introduction of the JLP Cash fund from 7 years to 4 years before retirement and to introduce an Absolute Return Bond ('ARB') fund 7 years before retirement. The reason for both recommendations was to provide a small amount of additional growth during the pre-retirement phase of the JLP Lifecycle. The Trustee is considering the appropriateness of these potential changes in light of the current investment environment. Any changes will be consistent with the aims and objectives of the default arrangement.

## **Regular monitoring**

In addition to the triennial strategic review, the Trustee reviews the performance of the default arrangement against its aims, objectives and policies on a quarterly basis. The Scheme's investment advisers attend quarterly meetings to present and highlight any specific issues. This review includes an analysis of fund performance and member activity to check that the risk and return levels meet expectations.

During the Scheme Year, the Trustee identified a couple of concerns during its quarterly reviews. Details of the concerns are as follows:

- One of the underlying equity funds within the default Lifecycle had shown a relatively high tracking error which was unexpected given the style of the investment. After further investigation, although there was no concern on the performance of the fund, it was identified that the benchmark used by the fund administrator was incorrect. The issue has since been rectified.
- After poor performance during the first quarter of 2022 for one of the diversified growth funds within the default Lifecycle, the Trustee questioned whether the fund's risk profile remained suitable for members. The Scheme's investment adviser is conducting a detailed review of the fund to assess its ongoing suitability and will provide a recommendation in Q3 2022.

### **(ii) Statement of Investment Principles**

The Trustee is responsible for investment governance, and this includes setting and monitoring the investment strategy for the default arrangement. It has appointed Mercer to act as its advisor in these matters.

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 their 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 in 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, 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"). The SIP is reviewed on at least a three yearly basis. The SIP was last reviewed in September 2020.

### **Other investment options**

In addition to the default arrangement, six other self-select fund investment options are available to members of the Scheme's DC section to choose from. The self-select funds include the three funds which make-up the Scheme's default arrangement.

The suitability of these self-select fund options was considered as part of the 2021 triennial investment review referenced above. The new ARB fund which was also being considered within the pre-retirement phase of the default arrangement may also be added to the self-select range.

These additional investment options continue to be regularly reviewed and monitored outside the triennial review cycle on a similar basis to the default arrangement.

For those members who actively contribute Additional Voluntary Contributions (AVCs) to the Prudential with-profits

fund, neither the JLP Lifecycle nor the additional self-select investments are available investment choices.

**Investment performance**

The presentation of the investment performance takes into account the statutory guidance issued by the Department for Work and Pensions. The Trustee has followed the statutory guidance in all areas.

**(i) Default arrangement**

During the Scheme Year, the funds used in the Scheme's default arrangement saw investment returns (net of charges and transaction costs) between a rise in value of 0.07% or, put another way, a rise of £0.70 for every £1,000 invested for the JLP Cash Fund, to a rise in value of 9.02%, or rise of £90.20 for every £1,000 invested for the JLP Global Equity Fund.

	Return on investments (net of charges and transaction costs) as a percentage to 31 March 2022		
Fund	1 year	3 years (p.a.)	5 years (p.a.)
JLP Global Equity Fund	9.02%	13.11%	10.50%
JLP Diversified Growth Fund	4.44%	5.54%	4.79%
JLP Cash Fund	0.07%	0.31%	0.38%

Source: L&G

As the default arrangement uses a lifestyle strategy, the investment return varies depending on the member's age and how far they are from their selected retirement age. The investment returns of the funds used in the default arrangement during the following periods up to 31 March 2022 net of all costs and charges were:

	Return on investments (net of charges and transaction costs)		
Age of member in 2022 (years)	1 year	3 years (p.a.)	5 years (p.a.)
25	9.02%	13.11%	10.50%
45	9.02%	13.11%	10.50%
55	6.27%	8.57%	7.07%

Source: L&G and Hymans Robertson

The Trustee is satisfied that all funds used by the default arrangement have performed in line with their objectives except for the JLP Diversified Growth Fund which significantly underperformed in Q1 2022. This fund aims to provide a better return than cash, so it's not surprising that it failed to meet its objective given both equity and bond markets fell in the early part of the year. The Scheme's investment adviser is conducting a detailed review of the fund to assess its ongoing suitability and will provide a recommendation to the Trustee in Q3 2022.

**(ii) Other investment options – self-select funds and AVC funds**

During the Scheme Year, investment returns net of costs and charges expressed as a percentage for the self-select fund range were:

Fund	Return on investments (net of charges and transaction costs)		
	1 year	3 years (p.a.)	5 years (p.a.)
<b>JLP Global Equity Fund</b>	9.02%	13.11%	10.50%
<b>JLP Diversified Growth Fund</b>	4.44%	5.54%	4.79%
<b>JLP Cash Fund</b>	0.07%	0.31%	0.38%
JLP Cautious Diversified Growth Fund	2.65%	2.48%	3.16%
JLP Ethical Equity Fund	16.62%	17.81%	12.90%
JLP Shariah Equity Fund	21.46%	21.20%	16.24%
JLP Annuity Protection Fund	-7.03%	0.42%	1.36%
AVC Prudential With-Profits Fund *	6.85%	6.75%	5.65%

Source: L&G, Prudential

The funds in **bold** are components of the default lifestyle strategy.

\* Prudential's annual bonus declaration for unitised With-Profits take effect on 6 April and return figures for Prudential With-Profits Fund are based on the year to 5 April 2022. The returns include a final bonus and assume an investment was made on the 6 April 1, 3 or 5 years previously and units were cancelled to pay benefits on or after 6 April 2022.

The Trustee has also requested performance information for AVC investments held with Aviva (formerly Sun Life and Friends Provident) and Phoenix Life (formerly London Life) who have been unable to provide the required information. The Trustee is continuing to seek this information from both Aviva and Phoenix Life.

The Trustee is satisfied that the self-select funds have generally performed in line with their objectives, with the exception of the JLP Diversified Growth Fund as noted above.

**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.

The charges and costs borne by Scheme members and the Employer for the Scheme's services are:

Service	By members	By the Employer
Investment	Yes	-
Administration	Yes	Yes
Governance	-	Yes
Communications	Yes	Yes
Retirement	-	Yes

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:

<b>Fund name</b>	<b>AMC</b>	<b>FMC</b>	<b>Hosting fee</b>	<b>Transaction charges</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
JLP Lifecycle (default)*	0.15	0.08 - 0.21	0.01 - 0.02	0.00 - 0.13
<b>JLP Global Equity Fund</b>	0.15	0.08	0.02	0.01
<b>JLP Diversified Growth Fund</b>	0.15	0.30	0.01	0.13
<b>JLP Cash Fund</b>	0.15	0.08	n/a	0.00
JLP Cautious Diversified Growth Fund	0.15	0.30	0.03	0.25
JLP Ethical Equity Fund	0.15	0.25	n/a	0.01
JLP Shariah Equity Fund	0.15	0.33	0.03	0.13
JLP Annuity Protection Fund	0.15	0.12	n/a	0.00
Prudential With-Profits Fund	0.47	n/a **	n/a	0.06

Source: L&G

The funds in **bold** are components of the default lifestyle strategy.

*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. The charges have been rounded to 2dp for disclosure purposes.*

*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 L&G, 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-L&G 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.*

\*\* *Prudential 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 applied 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. Transaction costs vary from day to day depending on where each fund is invested and stock market conditions at the time and are deducted before the funds' unit prices are calculated. This means that transaction costs are not readily visible, but these costs will be reflected in a fund's investment performance.

All costs in connection with the management and administration of investments held with L&G 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 Aviva (formerly Sun Life and Friends Provident) and Phoenix Life (formerly London Life) who have been unable to provide the required information. The Trustee is continuing to seek this information from both Aviva and Phoenix Life.

### **Cumulative effect of charges and costs on fund values**

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. 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:

**For the default arrangement – the JLP Lifecycle:**

Fund value at the end of year	Fund value at 31 March 2022: £8,000		Fund value at 31 March 2022: £13,000		Fund value at 31 March 2022: £21,000	
	Monthly contribution: £260		Monthly contribution: £434		Monthly contribution: £694	
	Fund value		Fund value		Fund value	
	No charges	After all charges	No charges	After all charges	No charges	After all charges
	£	£	£	£	£	£
1	11,349	11,323	18,581	18,539	29,930	29,862
3	18,095	17,989	29,821	29,647	47,916	47,636
5	24,920	24,693	41,192	40,819	66,112	65,513
10	42,449	41,730	70,394	69,205	112,844	110,935
20	80,558	77,862	133,864	129,393	214,422	207,255
30	124,990	118,567	207,842	197,182	332,832	315,749
40	169,938	156,286	282,680	259,997	452,618	416,283
45	173,676	157,842	288,928	262,617	462,604	420,459

**For a selection of the self-select funds:****Fund with the highest charges – the JLP Shariah Equity:**

Fund value at the end of year	Fund value at 31 March 2022: £8,000		Fund value at 31 March 2022: £13,000		Fund value at 31 March 2022: £21,000	
	Monthly contribution: £260		Monthly contribution: £434		Monthly contribution: £694	
	Fund value		Fund value		Fund value	
	No charges	After all charges	No charges	After all charges	No charges	After all charges
	£	£	£	£	£	£
1	11,311	11,238	18,519	18,400	29,831	29,639
3	17,940	17,643	29,567	29,080	47,507	46,723
5	24,589	23,962	40,648	39,615	65,237	63,577
10	41,101	39,453	68,662	65,442	110,063	104,895
20	76,649	69,686	127,382	115,836	204,030	185,522
30	115,722	99,930	192,458	166,238	308,180	266,168
40	160,789	131,313	267,501	218,528	428,290	349,841
45	186,328	147,768	310,022	245,940	496,351	393,709

**Fund with the lowest charges – the JLP Cash:**

Fund value at the end of year	Fund value at 31 March 2022: £8,000		Fund value at 31 March 2022: £13,000		Fund value at 31 March 2022: £21,000	
	Monthly contribution: £260		Monthly contribution: £434		Monthly contribution: £694	
	Fund value		Fund value		Fund value	
	No charges	After all charges	No charges	After all charges	No charges	After all charges
	£	£	£	£	£	£
1	10,943	10,928	17,918	17,893	28,862	28,821
3	16,480	16,422	27,171	27,075	43,651	43,497
5	21,574	21,457	35,684	35,491	57,258	56,948
10	32,541	32,223	54,014	53,487	86,555	85,709
20	48,109	47,229	80,042	78,582	128,151	125,811
30	57,161	55,627	95,187	92,638	152,348	148,265
40	61,548	59,363	102,542	98,907	164,091	158,270
45	62,442	59,951	104,048	99,903	166,490	159,854

For the purposes of the illustrations:

- The JLP Lifecycle strategy has been used as this fund is used by the majority of members for their DC section savings, the Shariah Equity fund has been used as this fund has the highest fund charges and the JLP Cash fund has been used as this fund has the lowest fund charges and risk profile.
- The stated fund sizes at 31 March 2022 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 Employer 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 Employer contribution rate available as at 31 March 2022.
- 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.
- 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:

<b>Component fund name</b>	<b>Growth rate %</b>
JLP Cash Fund	-1.5
JLP Global Equity Fund	2.7
JLP Shariah Equity	2.3
JLP Diversified Growth Fund	1.8

Source: L&G

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 2022, this information will also be made available on the following website: <https://www.johnlewispartnership.co.uk/meta/jlp-trust-for-pensions.html>

### **More information**

Further information on the funds, how they are invested and their investment performance during the year, can be found on the Scheme's website at <https://www.johnlewispartnership.co.uk/meta/jlp-trust-for-pensions.html>.

### **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 ("L&G"), being the administrators of the DC



section of the Scheme, and Prudential who invest and disinvest contributions as instructed, which are held in the With-Profits fund.

Detailed Service Level Agreements (“SLAs”) are in place with both Pension Operations and L&G. 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 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:
  - L&G have maintained compliance with ISO 27001;
  - L&G have maintained accreditation with the Pensions Administration Standards Association (“PASA”);
  - L&G and the Pension Operations team 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; and
  - Quarterly reporting provided by the administrators to the Trustee gave 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.

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 concerns with the administration of the Scheme.

### **Data quality**

Each year the Trustee arranges reviews and receives reports from L&G to confirm that they have undertaken an audit of the Scheme’s common data (which is the key data needed by the Scheme to calculate members’ benefits, such as dates of birth), to ensure that the records for all members are accurate and up-to-date.

The last data quality audit was undertaken in March 2022. This showed that common data was present for 98.44% of membership data as at March 2022.

### **Cyber security**

The Trustee is conscious of the growing threat of cyber-attacks on pension scheme information.

Each year the Trustee asks L&G to confirm that their cyber security arrangements are effective and up-to-date.

### **Own Risk Assessment (ORA)**

Each year the Trustee carries out an assessment of the effectiveness of the controls which are in place to manage the risks faced by the Scheme. The Trustee is currently preparing their first ORA.

## **Value assessment**

Each year, with the help of our advisers, Hymans Robertson LLP, the Trustee carries out an assessment for the Defined Contribution (DC) and Additional Voluntary Contribution (AVC) Sections of the Scheme. This assessment is carried out to establish whether the charges and transaction costs for the default arrangement and other investment options which our members pay in full or in part represent good Value for Members. It's important to note that value is not simply about low cost – the Trustee also considers the quality and scope of what the Scheme provides to you, our members, compared against some similar schemes and available external benchmarks. A summary of the approach and results of the value assessment carried out by our advisers in August 2022 is provided below. Their assessment has been made based on the information which has been made available to them by the Trustee, L&G (as the DC Section's investment platform provider) and the John Lewis Partnership. The Trustee has considered this assessment and accepts this.

### **(i) Approach**

Our advisers recommended the following approach to assessing Value for Members for the last Scheme Year:

- Services – The Trustee considered the Investment, Administration and Communications services where you as members bear some or all of the costs for the **Value for Members** assessment as well as the other services you use (i.e. Governance and Retirement support) in determining the **Overall Value for Money** of the Scheme;
- Comparison – The cost and quality of each service was compared against some similar trust-based pension schemes and against the schemes provided by other large retailers, noting that it is not possible in practice to find directly comparable arrangements; and
- Rating – Each service was rated on the basis summarised below.

### **(ii) Results for the Scheme Year**

On the basis of only the services where our members bear or share the costs (i.e. Investment, Administration and Communications services) our advisers concluded that the Scheme provided **Good** Value for Members in the Scheme Year.

Our advisers also assessed all the services our members use (i.e. Investment, Administration, Communications, Governance and Retirement) and concluded that the Scheme provided **Good** Overall Value for Money for the Scheme Year. Further detail on the rationale for the ratings is provided in the table below.

The rating criteria used in the assessments were:

<b>Rating</b>	<b>Definition</b>
<b>Excellent</b>	The Trustee considers the Scheme offers excellent Value for Members compared with similar schemes
<b>Good</b>	The Trustee considers the Scheme offers good Value for Members compared with similar schemes
<b>Average</b>	The Trustee considers the Scheme offers average Value for Members, providing similar services at similar quality/cost compared with typical options for similar schemes.
<b>Below average</b>	The Trustee considers the Scheme offers below average Value for Members, providing similar services at higher cost or more limited services for similar cost compared with typical options for similar schemes.
<b>Poor</b>	The Trustee considers the Scheme offers poor Value for Members, providing poorer services and/or higher charges compared with typical options for similar schemes.

The rating criteria used in the assessments by our advisers were:

<b>Service</b>	<b>Rating</b>	<b>Rationale</b>
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<b>Investment</b>	Average	<p>The total charges that our members pay (including those for investment, administration and communications) were broadly in line with those of similar schemes. The fees paid on investment funds were competitive.</p> <p>Transaction costs (effectively the cost of managing the funds our members are invested in were broadly similar to those of comparable schemes.</p> <p>The Trustee regularly reviews the investments of the Scheme to make sure they remain suitable for members. Our adviser is satisfied that the investment options are suitable for the Scheme's membership and in particular that the default arrangement is well designed and is suitable for members who do not wish to make an active choice on where to invest their pension savings. It seeks to generate returns in excess of inflation when members are in their early career and then reduces risk closer to retirement.</p> <p>The Trustee monitors the investment performance of all the funds offered to our members on a quarterly basis. Over the last Scheme Year, performance was broadly in line with the funds' objectives (although some funds lagged behind their benchmarks and the Trustee is continuing to monitor these closely).</p> <p>During the Scheme Year, the Scheme's investment options did not incorporate any explicit Environmental, Social and Governance (ESG) tilted approaches. The Trustee had started to prepare for the required Task Force on Climate-Related Financial Disclosures (TCFD).</p>
<b>Administration</b>	Good	<p>The administration of our DC members' pension savings (including the investment of members' contributions and the switches members make between funds) is in part carried out by the Scheme's investment platform provider Legal &amp; General (L&amp;G). The Pension Operations team within the Employer is also involved with some aspects of the administration of members' DC benefits (such as managing quotations, leavers, joiners and issuing benefit statements).</p> <p>Clear service standards are set out for the administrators and performance against these standards was excellent over the Scheme Year.</p> <p>L&amp;G is accredited to ISO 27001 standard by the Pensions Administration Standards Association ("PASA"). The Pension Operations team provided the Trustee with quarterly compliance certification over the year. Based on its advisers' assessment of this information, the Trustee concluded that:</p> <ul style="list-style-type: none"> <li>- all of the key tasks which the administrators needed to carry out (known as core financial transactions) were processed promptly and accurately and;</li> <li>- the administration processes included effective measures to help protect members against cyber-attacks and pension scams.</li> </ul>
<b>Communication</b>	Average	<p>Our members are provided with access to a Scheme-specific pensions "microsite" which has general pensions information and links to useful documents including the Scheme's DC Section guide and an investment options guide.</p> <p>Members also have access to L&amp;G's online service Manage Your Account (MYA) where they can view fund values, investment options and access modelling tools. The modelling tools include a 'Retirement Living Standards' tool to help members understand how much they will need to live on in retirement and a 'Boost your savings' tool to help show members where their money goes and whether small changes can be made to free up cash and increase contributions. It also includes a 'Retirement Planner' tool to show members if their pension savings are on track to give them the income they need. L&amp;G also offer a range of other support communications (including webinars) and the Trustee will be working over the next 12 months to help members benefit from more of these types of communications.</p>

		The Pension Operations team also provides members with wake-up packs and benefit statements. They also request member feedback which is reported in the quarterly administration report.
<b>Overall Value for Money Additional Items</b>		
<b>Governance</b>	Good	<p>A strong governance structure is in place for the Scheme. The Trustee Board is made up of nine Trustees (the people who are tasked with making sure your money is safe and well managed). The Board meets on a quarterly basis. There are also 5 sub-committees (Defined Benefit, Defined Contribution, Audit and Risk, Pension Monitoring and Membership sub-committees) which meet on a regular basis and provide an update at the quarterly Trustee Board meetings. This structure means that all the key areas of the pension scheme that impact our members' income in retirement are monitored well and regularly. The Trustee meets all of its regulatory requirements in relation to aspects such as risk management.</p> <p>It's important for the Trustee to keep up-to-date with training. Each member of the Trustee Board aims to complete at least 10 hours of formal training each year, 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.</p>
<b>Retirement</b>	Below Average	Whilst the number of at-retirement options available is below average when compared to the similar schemes, the Trustee notes that the Scheme's available options currently suit the majority of members who use their DC and AVC pots to fund their tax-free cash. The Trustee is prioritising a review of the Scheme's at-retirement offering in line with the Scheme's changing membership demographic.

**(iii) Action plan**

The Trustee has agreed an action plan for the following year to improve value where necessary and obtain any missing information. Actions include considering the Scheme's investment strategy, reviewing the Scheme's at-retirement offering and considering member communications.

**(iv) Wider comparison**

For the first time, our adviser has also compared the value for DC Scheme members against three of the UK's leading master trust arrangements. These are large pension arrangements with hundreds of thousands or millions of members. In order to carry out this assessment of value, our advisers approached the master trusts with details of the high-level membership and investment strategy of the Scheme to allow the master trust providers to give a realistic quote for fees and services were the Scheme to switch into a master trust arrangement. Overall, their assessment showed that the current Scheme offers similar value to a master trust arrangement. It also showed that there is no pressing need to make any changes to the structure of the Scheme. As part of the review, our adviser identified some areas where master trusts provide better value, and the Trustee will be working on a plan to develop these areas on behalf of the Scheme over the next three years.

**(v) AVCs VFM**

Additional Voluntary Contributions ("AVCs") members invested in the Prudential With-Profits Fund only pay for investment charges and so only this factor is relevant to a Value for Members assessment in line with the Regulations.

It is difficult to assess Value for Members with great precision in respect of any With-Profits Fund because of the lack of transparency and each member placing a differing value on the smoothing of returns and the capital guarantee.

Nevertheless, across all the Scheme's AVC members with Prudential, and looking at the level of bonus returns relative to the charges, we believe it would be difficult to justify an assessment of value of better than Average for the average member invested with Prudential.

## **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:

- 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 meets regularly 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 complete 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.
  - 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.

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  
Chair of the Trustee

Date: 9 October 2022

# 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’)	<ul style="list-style-type: none"> <li>• 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)</li> <li>• Low-risk offering a correspondingly low return</li> </ul>



White Label Fund Name	Benchmark	Objective
JLP Annuity Protection	A composite of Gilts and Corporate bond funds	<ul style="list-style-type: none"> <li>• Aims to provide diversified exposure to assets that reflect the investment underlying a typical traditional annuity product</li> <li>• Offer some protection against annuity price fluctuation</li> </ul>
JLP Cautious Diversified Growth	Sterling 3-Month London Interbank Offered Rate ('LIBOR') + 3.5% per annum over a market cycle	<ul style="list-style-type: none"> <li>• 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</li> <li>• The objective will be effected through strategic allocations to multiple asset classes</li> <li>• Targets 7% volatility over a market cycle</li> </ul>
JLP Diversified Growth	33% 3-Month LIBOR + 5% per annum; 67% FTSE Developed World Index	<ul style="list-style-type: none"> <li>• Aims to provide long-term investment growth through exposure to a diversified range of asset classes</li> </ul>
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	<ul style="list-style-type: none"> <li>• Aims to track passively the performance of a blend of global equity indices</li> </ul>
JLP Ethical Equity	FTSE4Good Global Equity Index	<ul style="list-style-type: none"> <li>• Aims to track passively the performance of the FTSE4Good Global Equity Index to within +/- 0.5% per annum</li> </ul>

White Label Fund Name	Benchmark	Objective
JLP Shariah Equity	Dow Jones Islamic Titans 100 Index	<ul style="list-style-type: none"> <li>• 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</li> </ul>

- 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