Axminster Carpets Group Retirement Benefits Plan

Statement of Investment Principles

as at June 2020

SPENCE

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This Statement of Investment Principles ("the Statement") has been commissioned by and addressed to the Trustee of the Axminster Carpets Group Retirement Benefits Plan ("the Plan").

This document has been prepared by Simon Cohen, in his capacity as appointed Investment Advisor to the Plan.

It has been prepared to comply with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.

This Statement and its contents are confidential to the Trustee of the Plan ("Trustee") and Spence & Partners Limited ("Spence").

What’s inside?

Introduction

This Statement sets out the principles governing decisions about investments for the Plan and supersedes the previous Statement prepared by the Trustee.

In preparing this Statement, the Trustee has:

1. **Consulted with the Company, although responsibility for maintaining this Statement and setting investment policy rests solely with the Trustee.**

2. **Obtained and considered written professional advice and recommendations from Spence who are the Trustee's appointed investment consultant. Spence is authorised and regulated by the Financial Conduct Authority ("FCA"). They have confirmed to the Trustee that they have the appropriate knowledge and experience to give the advice required by the Pensions Acts.**

The Trustee will review this Statement at least once every three years to coincide with the triennial actuarial valuation or other advice relating to the statutory funding requirements. If there are any significant changes in any of the areas covered by this Statement, the Trustee will review it without further delay. Any changes made will be based on written advice from a suitably qualified individual and will follow on from consultation with the Company.

The Plan is a defined benefits plan. The Trustee's investment powers are set out in the Trust Deed & Rules and subsequent amending deeds. This Statement is consistent with those powers.

Investment Objectives

The Plan has entered the assessment period for the Pension Protection Fund ("PPF") as the sponsoring employer has become insolvent. The Trustee's overall investment policy is guided by the following objectives:

- Investing assets to minimise the risk relative to the PPF valuation basis in preparation for entry in the PPF.
- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due.

Investment Responsibilities

The Trustee

Under the legal documentation governing the Plan, the power of investment is vested in the Trustee. Therefore, the Trustee is responsible for setting the investment objectives and determining the strategy to achieve those objectives. It sets the overall investment target and then monitors the performance of its investment managers against the target. In doing so the Trustee considers the advice of its professional advisers, who it considers to be suitably qualified and experienced for this role.

Its duties and responsibilities include but are not limited to:

- Regular approval of this Statement and monitoring compliance with this Statement.
- Appointment, removal (where applicable) and review of its investment managers or investment adviser and its performance relative to relevant benchmarks.
- Assessment of the investment risks run by the Plan.
- Monitoring and review of the asset allocation.

Investment Adviser's Duties and Responsibilities

The Trustee has appointed Spence as its investment advisor. Spence provides advice when the Trustee requires it and/or when Spence feels it suitable to do so. Areas on which it can provide advice are as follows:

- Setting investment objectives.
- Determining strategic asset allocation.
- Determining suitable funds and investment managers.
- Managing cashflow.

It should be noted that the Trustee retains responsibility for all decisions.

Any services provided by Spence will be remunerated on a time cost basis, although fixed fees may be agreed for specific projects

Spence does not receive any commission or any other payments in respect of the Plan for investment services that will affect the impartiality of their advice. Any manager discounts received through the use of an investment platform are passed in full to the Plan.

The Trustee is satisfied that this is a suitable adviser compensation structure.

Investment Managers' Duties and Responsibilities

The Trustee, after considering suitable advice, has appointed various managers to manage the assets of the Plan which are invested via the Mobius Life Limited ("Mobius") investment platform.

The underlying investment managers are detailed in the Appendix of this Statement. These investment managers are authorised and regulated by the FCA and are responsible for stock selection, asset allocation (if managing a multi-asset portfolio) and the exercise of voting rights. All the underlying managers are compensated by fund-based charges on the value of the Plan's assets that they hold.

The Plan's agreed asset allocation is defined in Appendix.

Setting the Investment Strategy

The Trustee has determined its investment strategy after considering the Plan's liability profile, its own appetite for risk, the views of the PPF and the PPF's guidance for the Plan entering the assessment period. It has also received written advice from its investment adviser.

Types of Investment

The Plan's assets are invested on behalf of the Trustee by Mobius, through an investment platform, with underlying investment managers.

The Trustee is permitted to invest across a wide range of asset classes, including but not limited to equities, bonds, cash, property and alternative asset classes. The use of derivatives is as permitted by the guidelines that apply to the pooled funds. The Trustee understands that some asset classes provide a better match to the liabilities than others.

The Plan does not hold any employer related investments.

Balance Between Different Types of Investment

The Plan invests in assets that are expected to achieve the Plan's objectives detailed previously.

The allocation between the different asset classes is shown in the Appendix of this Statement.

The Trustee has considered the merits of both active and passive management for the different elements of the asset allocation and selected suitable types of management for each asset class. The current managers are shown in the Appendix.

From time to time the Plan may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected events.

The Trustee may also hold insurance policies which are for the benefit of certain members to match part or all of their liabilities.

Expected Return on Investments

The Trustee has noted the long-run relationships that exist between the returns from different asset classes and has noted the different expected risk/return characteristics of the various different asset classes.

In particular, it has noted that equities can be expected to deliver a greater long-run real return (over price inflation) than that expected from fixed interest gilts, index-linked gilts or cash but that typically equities are the most volatile asset class in terms of market returns on an annual basis.

The Trustee's chosen policy is to position the Plan's assets in such a way that it conforms with the PPF's guidance and reduces the funding level volatility.

Realisation of Investments

The Plan's assets are invested in pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Plan's investments can generally be readily realised, if necessary.

Financially Material Considerations

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Plan for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes it is investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its fund managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Plan's assets are subject to the investment manager's own policy on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Plan with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standards.

The Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments;

- Use ESG ratings information provided by its investment consultant, to assess how the Plan's investment managers take account of ESG issues; and

- Request that all of the Plan's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account on whether to select or retain an investment.

Non-Financially Material Considerations

The Trustee has not considered non-financially material matters in the in the selection, retention and realisation of investments.

Stewardship

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expects the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment manager's policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expects investment managers to adhere to this where appropriate for the investments they manage.

Environmental, Social and Governance ("ESG") and Climate Change Risks

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process.

Investment Manager Arrangements

Incentives to align investment managers' investment strategies and decisions with the Trustee's policies

The Plan invests in pooled funds and so the Trustee acknowledges the funds' investment strategies and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the fund manager's incentive.

The Trustee uses the fund objective/benchmark as a guide on whether its investment strategy is being followed and monitors this regularly.

Incentives for the investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustee selects managers based on a variety of factors including investment philosophy and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the managers' voting and ESG policies and how they engage with the company as it believes that these can factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the managers' engagement and voting activity on an annual basis as it believes this can improve long term performance. The Trustee expects its managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Plan.

The Trustee believes that the annual fee paid to the fund managers incentivises them to do this.

If the Trustee feels that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

How the method (and time horizon) of the evaluation of the fund managers' performance and the remuneration for asset management services are in line with the Trustee's policies

The Trustee reviews the performance of each fund quarterly on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the funds, where possible, over at least a 3-5 year period when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The fund managers' remuneration is considered as part of the manager selection process and is also monitored regularly with the help of its investment consultant to ensure it is in line with the Trustee's policies.

How the Trustee monitors portfolio turnover costs incurred by the fund managers, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manager. This is monitored on an annual basis.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to their investment consultant.

The duration of the arrangement with the fund managers

The Trustee plans to hold each of its investments for the long term but will keep this under review.

Changes in investment strategy or change in the view of the fund managers can lead to the duration of the arrangement being shorter than expected.

Risks

The Trustee is aware and seeks to take account of a number of risks in relation to the Plan's investments. Under the Pensions Act 2004, the Trustee is required to state its policy regarding the ways in which risks are to be measured and managed. Overall, the Trustee measures and monitors the performance of its assets, its managers and the movements in the Plan's liabilities. The key risks and the policies are as follows:

Solvency and Mismatching Risk	This is measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities. The risk is managed by setting a Plan specific asset allocation with an appropriate level of risk.
Concentration Risk	This is managed through the diversification of the Plan's assets across a range of different funds with different investment styles and underlying securities, and different investment managers.
Investment Manager Risk	This is assessed as the deviation of actual risk and return relative to that specified in the investment manager's objectives. It is measured by monitoring on a regular basis the actual deviation of returns relative to investment manager's agreed objectives and an assessment of factors supporting the managers' investment process. In addition, the Trustee will have meetings with the manager as necessary in order to review performance.
Sponsor Risk	This is assessed as the ability and willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit. This is managed by assessing the interaction between the Plan and the sponsor's business, as measured by a number of factors including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor.
Liquidity Risk	This is monitored according to the level of cashflows required by the Plan over a specified time period. The Plan's administrators will assess the cash requirements to limit the impact of cashflow requirements on the Plan's investment policy. The risk is managed by having a suitable amount of readily realisable investments and by holding a certain level of cash type assets. The Plan invests in assets that are invested in quoted markets and are as readily realisable as the Trustee feels suitable given the Plan's cashflow position and the expected development of the liabilities. All funds currently invested in are daily dealt.

Currency Risk	The Plan's liabilities are denominated in sterling. The Plan may gain exposure to overseas currencies by investing in non-sterling assets or via currency investment. Some currency hedging is used to manage this risk.

Loss of Investment Risk	There is a risk of loss of investment by each investment manager and potentially the custodian. This includes losses beyond those caused by market movements e.g. losses caused by fraud. The Trustee undertakes regular reviews of the internal controls and processes of the investment managers.

Environmental, Social and Governance (ESG) and Climate Change Risks	There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues as part of the investment process.

Compliance

The Trustee confirms that it has received and considered written advice from Spence on the establishment and implementation of their investment strategy.

The Trustee confirms that it has consulted with the Company regarding their strategy. Copies of this Statement and any subsequent amendments will be made available to the Company, the investment managers, the Plan Actuary and the Plan auditor upon request.

The Trustee will monitor compliance with this Statement at least every three years. This will include a review of the suitability of the investment strategy on an ongoing basis and consideration of the continued suitability of the appointed investment managers.

Signed on behalf of the Trustee of the Axminster Carpets Group Retirement Benefits Plan
Name: Mark Homer Position :Client Director Date: 14 September 2020

Appendix

Appendix

Strategic Asset Allocation

The Plan has a strategic asset allocation as set out in the table below:

<table>
<tr><th>Asset Class</th><th>Fund</th><th>Strategic Allocation</th></tr>
<tr><td>Diversified Growth Fund ("DGF")</td><td>BNY Mellon Real Return Fund</td><td>10.0%</td></tr>
<tr><td>Corporate Bonds</td><td>Legal & General ("LGIM") Active Corporate Bond Over 10 Years Fund</td><td rowspan="3">90.0%</td></tr>
<tr><td>Gilts</td><td>BlackRock Aquila Connect Over 15 Years UK Gilt Fund</td></tr>
<tr><td>Index Linked Gilts</td><td>BlackRock Aquila Connect Over 5 Years Index Linked Gilts Fund</td></tr>
<tr><td>Total</td><td></td><td>100.0%</td></tr>
</table>

Rebalancing and Cashflow Management

The Trustee recognises that the asset allocation of investments will vary over time due to market movements. The Trustee seeks to keep the asset allocation in line with its benchmark but is cognisant of the costs of rebalancing.

Where possible, cash outflows will be met from the income of the Plan's assets to minimise transaction costs. Where income is insufficient monies will be raised through the sale of assets so as to move the allocation closer to the central benchmark allocation subject to consideration of liquidity issues, transaction costs, market conditions and the speed with which monies are required. Similarly, where cashflows in are received, the money will be invested in such a way as to bring the allocation into line with the central benchmark allocation.

Appendix continued…

Investment Managers

The Trustee has invested the Plan assets through an insurance policy with Mobius Life. Mobius Life provides investment administration for the Plan and so carries out the day to day management of the fund managers.

The table below shows the underlying investment managers appointed to carry out the day to day management of the assets, as well as the funds that they manage, their benchmarks and relevant objectives.

Investment Manager	Fund	Benchmark	Objective
BNY Mellon	Real Return	LIBOR GBP 1 Month	+4.00% p.a. gross of fees over rolling 5-year period
LGIM	Active Corporate Bond Over 10 Year	Markit iBoxx £ Non-Gilts Over 10 Years Index	Outperform by +0.75% per annum gross of fees over a three year rolling period
BlackRock	Aquila Connect Over 15 Years UK Gilt	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	Track benchmark
	Aquila Connect Over 5 Years Index Linked Gilts	FTSE Actuaries UK Index Linked Gilts Over 5 Years Index	Track benchmark

The investment managers are authorised and regulated by the Financial Conduct Authority.

Each investment manager’s performance will be monitored on a regular basis.

Appendix continued…

Fees

The fee arrangements for the investment managers are summarised below:

Investment Manager	Fund	Annual Management Charge
BNY Mellon	Real Return	0.69% p.a.
LGIM	Active Corporate Bond Over 10 Year	0.24% p.a.
BlackRock	Aquila Connect Over 15 Years UK Gilt	0.08% p.a.
	Aquila Connect Over 5 Years Index Linked Gilts	0.08% p.a.

The Trustee has appointed Spence as their investment consultant. Spence are remunerated on a time cost basis, although fixed fees may be agreed for specific projects.

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