

Sainsbury's Pension Scheme
Statement of Investment Principles

Introduction

Purpose of this Statement

This Statement of Investment Principles (SIP) sets out the principles governing decisions about the investment of the assets of the Sainsbury's Pension Scheme (the Scheme). It has been prepared on behalf of the Scheme's trustee, J Sainsbury Pension Scheme Trustees Limited (the Trustee) to comply with Section 35 of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005, as amended. It is effective from the date of this statement (shown at the end of the document) which is also the date of the latest review. This SIP supersedes all previously adopted versions.

Description of the Scheme

The Scheme consists of two sections; the Sainsbury's Section and the Argos Section. The Scheme is set up as a trust under its own trust deed and rules.

The Sainsbury's Section is a defined benefit arrangement, providing pensions based on final salary, career average re-valued earnings and cash balance bases. The Sainsbury's Section closed to new members on 1 January 2002 and to the future accrual of benefits on 28 September 2013.

The Argos Section is a defined benefit (final salary) arrangement and operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries. The Argos Section was closed to the majority of new employees in December 2002 and was closed to all new joiners and to future accrual on 31 January 2013.

Advice and consultation

This SIP has been prepared in consultation with the Trustee's Investment Committee following advice from its advisers. The Investment Committee has, on behalf of the Trustee, consulted J Sainsbury plc (the Company) in its preparation.

Investment powers and decision making

The Trustee's investment powers are set out in the Scheme's trust deed and rules. This SIP is consistent with those powers. The Trustee has agreed investment objectives for each section and has delegated all other decisions on investment matters to its Investment Committee in consultation with its appropriately authorised external advisors.

The Investment Committee has in turn delegated day-to-day decisions as to which securities or other assets to buy, sell or hold to external investment managers which are authorised in accordance with the Pensions Act and the Financial Services and Markets Act 2000.

Maintaining the Statement

The Trustee's policy is to review its SIP at least once every three years or sooner if there is reason to do so, for example, following a significant change in investment policy.

Other sources

This document comprises a statement of the Trustee's investment principles as required under legislation. Further specific details on investment policies and their implementation are contained in:

- (i) the Investment Policy Implementation Document which details the Scheme's current Strategic Asset Allocation;
- (ii) the investment management agreements between the Trustee, the Scheme, and the external investment managers appointed to manage the assets;
- (iii) the custody agreement between the Trustee, the Scheme, and the custodian;
- (iv) papers prepared from time to time for the Investment Committee;
- (v) the International Swaps and Derivatives Association (ISDA) and Global Master Repurchase Agreement (GMRA) agreements between the Scheme, the external investment managers and the counterparty banks.

Investment principles

Investment objectives and risk

Other than its duty to ensure the obligations under the Scheme's sectionalisation are met, the Trustee considers that its primary responsibility in respect of investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations as they fall due.

Following the completion of the 2021 valuation and the updating of actuarial assumptions, the Scheme is targeting being 100% funded on a gilts + 0.5% p.a. basis funding level, while limiting the downside risk associated with the investment policy, wherever possible. This is the current milestone objective and the Trustee is giving further consideration to a longer term low reliance objective.

As at 31 December 2022, using the best estimate investment returns of the portfolio over time, there would be a 50% or better chance of being fully funded on a gilts + 0.5% p.a. funding level basis by the end of 2024 for the Argos Section, and by the end of 2028 for the Sainsbury's Section. This takes into account the funding framework agreed with the sponsoring employer as part of the 2018 valuation process.

In setting the investment strategy the Trustee identifies, measures and manages relevant risks. The Trustee's risk dashboard provides a framework against which risks are regularly assessed. The Trustee and Investment Committee take actions to manage risk when necessary.

The Trustee recognises that risk can take many forms. For example, the Trustee regards key investment related risks as including:

- insufficient cash to pay benefits as and when they fall due
- the likelihood of failing to achieve investment objectives (as set out above)
- the future ability or willingness of the Company to pay contributions
- risks associated with actions of investment managers
- safekeeping of assets
- financial markets' risk, including realisation of investments
- sustainability of investments (including factors such as Environmental, Social and Governance risks)
- counterparty risk deriving from derivative and securities lending contracts
- inflation and interest rate movements that increase the Scheme's liabilities
- currency risk
- longevity risk.

The Trustee reviews its investment objectives, based on input from the Investment Committee, following triennial actuarial valuations and more frequently whenever required. Investment reviews focus on the impact of investment policy on expected future funding levels and take into account projected funding risks. Details of the Scheme's current Strategic Asset Allocation are shown in the Investment Policy Implementation Document.

The Investment Committee monitors actual asset allocations relative to the strategic asset allocations on a regular basis and, from time to time, considers any rebalancing or de-risking having considered advice from its investment consultant.

Investment beliefs

The Trustee is developing a revised set of investment beliefs to guide future decisions relating to the investment of the Scheme's assets. These investment beliefs will reflect the Trustee's core, long term views.

Investment management

Investment managers are bound by the terms and conditions of contracts in which investment guidelines and restrictions are formalised.

Risks associated with investment manager performance are addressed through a regular review process. Operational risks associated with the safekeeping and ring fencing of the Scheme's assets are managed through the employment of a professional global custodian.

The Scheme holds assets invested separately from the main fund in the form of individual investment

accounts for members who previously elected to make additional voluntary contributions (AVC).

Types of investments to be held

The Trustee believes in a diversified approach to investment and uses various asset types which, after taking advice from its investment consultant, are deemed suitable for the Scheme. The full list of investments is included in the Annual Report & Accounts.

These asset types may be accessed either directly (e.g. as securities) or indirectly, either through collective instruments (e.g. pooled fund or Fund of Funds) or through the use of derivatives. These can be used to gain efficient exposure, for the purposes of day-to-day operating, or risk control.

Asset Backed Contributions (“ABC”) arrangement

The Trustee holds partnership interests in a Scottish Private Limited Partnership which was specifically designed to provide an income stream (backed by collateral) up to and including 30 September 2038. In addition, the arrangement provides security in the form of capital rights upon insolvency of J Sainsbury plc. This security provides some collateralised protection for both sections of the Scheme up to 30 September 2038.

The ABC arrangement will provide income payments until both sections of the Scheme achieve full funding on a secondary funding target that replicates the technical provisions basis, but uses a single discount rate of gilts(+0.5%) and is updated for items such as member movements and longevity developments more regularly.

The Trustee considers the partnership interest when setting investment strategy, but it is not included within the benchmark asset allocation given:

- i) The arms-length value of the partnership interest in percentage terms will vary through time; and
- ii) The partnership interest cannot be modelled as a distinct asset class as its value is a function of the projected funding level (assessed on a gilts (+0.5%) basis and a gilts(+0.25%) basis).

Liability hedging policy

Each Section has a defined liability hedging policy to manage interest rate and inflation risks, which identifies the target hedge, hedge basis and how this is implemented.

The Trustee will actively monitor longevity risks and will consider actions, as appropriate, in future.

Currency hedging policy

Each Section has a defined currency hedging policy to manage currency risks which identifies the target hedge and how this is implemented.

Day to day Management of the Assets

The Trustee regards its policy for allocating assets across different asset classes and the amount to be held within each class as the factors that most influence returns and control of risk.

Day-to-day investment decisions are delegated to external investment managers, who are appropriately authorised. Investment managers are required to invest in the context of the objectives, benchmarks and risk parameters that they are set including the management of counterparty risks. Details of the investment managers are shown in the Investment Policy Implementation Document.

The Investment Committee regularly reviews the continuing suitability of the Scheme's investments, including the performance of the appointed managers and their ongoing compliance with the Trustee's investment policies. The Investment Committee seek long-term, ongoing partnerships with their investment managers to incentivise medium to long-term overall performance. The Investment Committee does not set duration expectations for its partnerships but monitors their suitability on an ongoing basis.

The investment consultant has provided advice on the appointment of each mandate which confirms the objectives are consistent with the Scheme's SIP.

Process for investment decision-making and implementation

The Trustee engages an investment consultant to provide professional advice. Significant investment decisions are made by a process of consultation with external advisors and debate within the Investment Committee. Such decisions include asset allocation changes and the appointment and termination of investment managers. The Company's Pensions Department is responsible for implementing the Investment Committee's decisions.

The Investment Committee proposes an annual business plan which is agreed and monitored by the Trustee.

Investment performance review and control

The Investment Committee measures investment returns and performance. The Trustee requires that this information is sourced independently of its investment managers and that it is reported quarterly, wherever possible.

The Trustee invests for the longer term and selects and appoints managers on this basis, taking into account a number of factors. The Investment Committee expects its investment managers to directly engage with issuers to improve the issuer's performance on a medium to long-term basis. The quality of each investment manager's approach forms part of both the initial assessment and of its ongoing suitability.

The Investment Committee agrees fee structures with the managers which align with these longer-term objectives, which may include a performance related fee where appropriate.

The Investment Committee assesses investment manager performance over various periods including 3 years, 5 years and since inception of the mandate. It heavily bases its review of ongoing suitability of the investment manager on the assessment of the forward-looking return expectations and the portfolio's role in supporting the overall investment objectives.

The Investment Committee monitors the stewardship and engagement activities for each of its investment managers on at least an annual basis, as well as when meeting with the managers.

The Investment Committee reviews the turnover and ongoing investment costs on an annual basis using the Industry standard templates and definitions developed by the Cost Transparency Initiative (CTI). Based on the guidance from its investment consultant, each portfolio has an expected investment turnover range. Deviations from that range are reviewed with the investment manager.

Environmental, Social, Governance (ESG) risks

The Trustee believes that environmental, social and corporate governance (ESG) issues including the impact of and potential policy responses to climate change can be financially material to long-term investment portfolios and should therefore be considered as part of the Scheme's investment process.

The Trustee delegates responsibility for the Scheme's policy on ESG risks to the Investment Committee.

The Investment Committee has given their investment managers full discretion to evaluate ESG issues in the selection, retention and realisation of investments. The Investment Committee believes that good active managers consider how to best account for ESG factors, including climate change risks, in their investment process. The evaluation of how the Investment Committee's active managers identify and manage material ESG risks including climate change, along with the quality of their stewardship activities, forms part of the Investment Committee's ongoing appraisal of the manager's appointment.

It is accepted that pooled investments will be governed by the individual policies of the investment managers. The extent to which ESG and climate change risks are taken into account are left to the discretion of the investment manager and forms part of the Investment Committee's monitoring and ongoing assessment of these investments.

Non-Financial matters

The Trustee and Investment Committee do not require their investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

Stewardship & Engagement activities

The Trustee believes that good stewardship practices, including monitoring and engaging with investee companies, can enhance long-term portfolio performance and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty.

The Trustee delegates responsibility for the Scheme's policy on stewardship, including engagement activities, to the Investment Committee.

The Investment Committee seeks to appoint investment managers that have strong stewardship policies and processes and encourages best practice in terms of engagement with investee companies. The Investment Committee expects the Scheme's investment managers to discharge their responsibilities in accordance with the principles of the Financial Reporting Council's UK Stewardship Code ("the Code") as far as it is able, or to explain why they believe it is appropriate not to do so. The investment managers are required to report on the extent of their adherence to the Code, alongside their broader

stewardship activities on at least an annual basis.

The Scheme's investment managers are given full discretion in exercising stewardship obligations relating to the Scheme's investments in line with their own stewardship policies. However, the Trustee has selected some priority ESG themes which will provide a focus for the monitoring of the investment managers' stewardship activities. The investment managers are expected to prioritise stewardship and engagement activities in relation to the following ESG themes, which represent the Trustee's priorities in relation to stewardship: Climate change (with focus on disclosures), Human and labour rights, and Diversity and Inclusion. The Investment Committee will review these themes regularly and will update them if appropriate.

The Trustee delegates monitoring of the managers activities to the Investment Committee which is supported by its Investment Adviser. The Investment Committee monitors the investment managers engagement activities in relation to ESG factors on a regular basis and seeks to understand how managers are implementing their stewardship policies in practice to check that these activities are effective and aligned with the Trustee's expectations.

All investment managers are expected to engage with issuers on all relevant stewardship matters including performance, strategy, risks, social and environmental impact and corporate governance. Furthermore, the Investment Committee encourages its fund managers to work collectively with other managers when practical.

The Investment Committee may engage with its investment managers as part of its stewardship monitoring process or, potentially, as a particular stewardship matter is brought to its attention. Monitoring will be focussed on the investment managers' engagement activities since the Scheme has no exposure to listed equities with voting rights. If a manager's level of engagement was viewed to be unsatisfactory, the Investment Committee would escalate this to the investment manager. If the Committee's engagement with the investment manager did not result in any improvement over a reasonable period of time, the IC would consider whether the specific circumstances justified the termination of the mandate.

Cash flow requirements

The Trustee, together with the Scheme's administrators and the Pensions Department ensures that sufficient cash is held at all times to meet the cost of benefits as and when they fall due. There are sufficient liquid assets to meet any unexpected cash flow requirements and to minimise the need to realise investments at inopportune times. From time to time the Investment Committee reviews the Scheme's cashflow position to determine whether any changes are required to better accommodate the Scheme's future cashflow requirements.

Date: May 2023