Statement of Investment Principles for the Next Group Pension Plan

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of Next Pension Trustees Limited ("the Trustee") on various matters governing decisions about the investments of the Defined Benefit ("DB") section of the Next Group Pension Plan ("the Plan").

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Plan's DB Section investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Plan, and the principles contained in this SIP. The Trustee has consulted with the relevant employer in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

Appendix 1 contains brief details of the respective responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.

2. Investment objective

In October 2013, the Trustee transferred the majority of the Next Group Pension Plan assets to the 2013 Next Group Pension Plan, leaving on the DB side the Aviva annuity policies and some additional assets to cover winding up lump sums and expenses. The Trustee's objective is to wind up the Plan in a cost effective and efficient manner. Therefore, the Trustee's policy on expected return is that the assets that remain should aim to deliver a return that is sufficient to cover the cost of winding up the Plan, without further contributions from the employer and meet the associated liabilities of the Plan

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, reviewed the investment strategy, taking into account the objective described in Section 2 above. As a result of the review, the Trustee agreed that the majority of the Plan's assets, apart from the Aviva annuity policies, should be invested in index-linked gilts and fixed-interest gilts. These assets are to be used to meet the wind-up expenses and lump sums of the Plan and pay the residual liabilities.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Plan's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered asset classes suitable for the purpose of meeting the winding up lump sum and expenses and meeting the remaining liabilities, and the expected returns and risks associated with those asset classes.

In setting the strategy the Trustee also took into account:

- the best interests of members and beneficiaries;
- the circumstances of the Plan, including the profile of the benefit cash flows, the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies; and
- the need for appropriate diversification between different asset classes.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

The Trustee has limited influence over managers' investment practices because all the Plan's assets are held in pooled funds, but we encourage the managers to improve their practices within the parameters of the fund they are managing.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers to make decisions based on assessments of the longer term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). The Trustee assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance over both shorter and longer term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance.

The Trustee's policy is to evaluate each of the investment managers by considering performance, the role it plays in helping to meet the overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. The Trustee expects our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Plan's investment mandates.

Details of the investment manager, its objectives, investment guidelines, and custody arrangements are set out in Appendix 3. The Trustee has entered into an insurance policy with Legal & General Assurance (Pensions Management) Limited to manage the Plan's assets. Investment management of these assets is delegated to Legal & General Investment Management. The insurance policy sets out details of the terms under which the Plan's assets are managed. Custody of the assets is arranged by Legal & General.

6. Realisation of investments

The investment manager has discretion over the timing of realisation of investments of the Plan within the portfolios that they manage and in considerations relating to the liquidity of investments. When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment manager of any liquidity requirements.

7. Financial material considerations and non-financial matters

The Trustee has considered how environmental, social, and governance ("ESG") factors (including but not limited to climate change) should be taken into account in the selection, retention and realisation of investments. The Trustee considers that it is necessary in all circumstances to act in the best financial interests of the beneficiaries and, where this primary consideration is not prejudiced, the Trustee may ask the investment manager specifically to take these issues into account. The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but we encourage our managers to improve their practices within the parameters of the fund.

The Trustee influences the Plan's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. The Trustee expects all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. The Trustee seeks to appoint managers that have the skills and processes to do this.

The Trustee does not consider any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

8. Voting and engagement

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. We expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

The Trustee cannot usually directly influence the manager's policy on the exercise of investment rights where assets are held in pooled funds; this is due to the nature of these investments. The Trustee understands that investment rights will be exercised by the investment manager in line with the manager’s general policy on corporate governance, which reflect the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, taking into account the financial interests of the beneficiaries.

The Trustee has selected some priority ESG themes to provide a focus for our monitoring of investment managers’ voting and engagement activities. The Trustee will review the themes regularly and update them if appropriate.

It is important to note that the Plan’s only investments are buy-in policies with Aviva, and units of gilts pooled funds managed by Legal & General. Therefore, voting considerations are not relevant since none of the Plan’s assets have voting rights associated with them, and there are no companies to engage with in relation to the assets since the gilts issuer is the UK government.

For on behalf of the Trustee of the Next Group Pension Plan:

APPROVED AT TRUSTEE BOARD MEETING 14 SEPTEMBER 2023

Responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Plan. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Plan overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Plan's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employers;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- appointing (and, when necessary, dismissing) investment managers, custodians, investment advisers, the actuary and other advisers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- formulating a policy on socially responsible investment issues;
- formulating a policy on voting rights;
- communicating with members as appropriate on investment matters;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer(s) when reviewing the SIP.

2. Investment manager

In broad terms, the investment manager will be responsible for:

- managing the portfolios of assets according to the stated objectives, and within the guidelines and restrictions set out in the relevant governing documentation;
- providing the Trustee with regular information concerning the management and performance of the respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;

- advising on the selection, and review, of the investment managers; and
- participating with the Trustee in reviews of this SIP.

4. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets.

The Trustee has agreed Terms of Business with the Plan's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment manager receives fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the manager's general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Plan. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

Policy towards risk, risk measurement and risk management

The Trustee considers that there are a number of different types of investment risk that are important for the Plan. These include, but are not limited to:

1. Risk of inadequate returns

A key objective of the Trustee is that the Plan should have adequate assets to meet its liabilities as they fall due. As the assets are expected to be sufficient to meet the liabilities, the Trustee has invested the Plan's assets in bonds, which should move in a similar manner to the liabilities, and hence reduce the risk that the performance of the Plan's assets and liabilities diverges.

2. Investment manager risk

This is the risk that the investment manager fails to meet its investment objectives. The Trustee monitors the investment manager on a regular basis.

3. Liquidity/marketability risk

This is the risk that the Plan is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Plan's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Plan's investments.

4. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Plan is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in UK government bond funds, which are considered to have little risk of default.

5. Interest rate and inflation risk

The Plan's asset are subject to interest rate and inflation risk. However, the interest rate and inflation exposure of the Plan's assets hedges part of the corresponding risks associated with the Plan's liabilities. The net effect should be to reduce the volatility of the funding level.

6. Security of the Plan's assets

This is the risk that the Plan's assets are in some way compromised by the insolvency of the Plan's investment managers or the custodian of the assets. The Trustee has received information from its investment adviser regarding this risk.

The Plan's assets with Legal & General are not ring fenced, since they are held in the form of an insurance policy. However, there are a number of safeguards, protections and recourse available to the Trustee in the event that the manager becomes insolvent.

7. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Plan (eg sponsor covenant risk), and takes these into consideration as far as practical in setting the Plan's investment arrangements.

Investment manager arrangements

The Plan's only investment manager is Legal & General.

- The Plan invests in index-linked gilts through a pooled fund called the All Stocks Index-Linked Gilts Index Fund. The objective of this fund is to track the performance of the FTSE A Index-Linked (All Stocks) Index to within +/-0.25% pa, before the deduction of fees, for two years out of three.
- The Plan invests in fixed interest gilts through a pooled fund called the Over 15 Year Gilts Index Fund. The objective of this fund is to track the performance of the FTSE A Government (Over 15 Year) Index to within +/-0.25% pa, before the deduction of fees, for two years out of three.

Both of the Legal & General funds are passively managed, are priced weekly, and are open-ended and unlisted. Legal & General is responsible for custody of the assets of the fund. Responsibility is delegated to HSBC. The Trustee does not have a direct relationship with the custodian.

The Trustee has entered into an insurance policy with Legal & General Assurance (Pensions Management) Limited to manage the Plan's assets. Investment management of these assets is delegated to Legal & General Investment Management. The insurance policy sets out details of the terms under which the Plan's assets are managed.

The annuity provider is Aviva.