STATEMENT OF INVESTMENT PRINCIPLES – AUGUST 2023

Introduction

The Trustee of the Marks & Spencer Pension Scheme ("the Scheme") has prepared this Statement of Investment Principles ("SIP"), in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it). The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

This written statement outlines the principles and policies governing determinations about investments made by or on behalf of the Trustee in the management of the Scheme's assets.

The Trustee will review this SIP at least annually and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Scheme's Investment Adviser and consulted Marks & Spencer plc (the 'Company') as Principal Employer. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

This document covers the governance of the Scheme, the investment objectives and policy, the funding requirements and risk control. An Appendix to the document includes the individual investment management arrangements. A copy of the Appendix is available to members upon request.

A glossary which explains some of the terms used in the SIP can be found on the Scheme's website:

https://www.mandspensionscheme.com/glossary

Scheme Structure

The Scheme is comprised of a defined benefit ("DB") arrangement, under which members receive a pension based on the number of years of service and pensionable salary, and an Additional Voluntary Contribution (AVC) arrangement, which is now closed to new contributions. The AVC arrangement is a money purchase platform offering a range of investment alternatives, which gave members of the DB Scheme the opportunity to increase their retirement income.

Governance

The Trustee has ultimate responsibility for decision-making on investment matters. However, to enable an appropriate level of attention to investment issues, the Trustee has delegated the majority of investment matters, with decision-making powers where appropriate, to an Investment Committee ("IC") of the Trustee. All decisions of the IC are recorded in Committee minutes and made available to the full Trustee Board.

In broad terms, the IC is responsible for:

- Overall asset allocation, risk hedging and cashflow.
- Investment policy and SIP.
- Maintaining and monitoring portfolio parameters and the annual plan for the Scheme's growth assets, monitoring investment managers.
- Dealing with any other specific investment related issues that arise.
- Reviewing the performance of the Investment Adviser, Custodian, Consultants and other advisors.
- Appointing advisors and consultants for specific projects.
- Establishing and maintaining an Annual Plan for the Scheme's growth assets to meet the objectives set and for approval by the IC.
- Monitoring the performance of the investment managers portfolios against their objectives and the quality of their investment teams and processes.
- Proactively considering any new investment opportunities which become available for investment within the Scheme's growth assets.
- Investigating other specific investment-related issues and projects as directed by the IC.
- Appointing investment advisers, lawyers and consultants for specific projects.
- Overseeing the management of transitions and cash draw down arrangements to be arranged by the Trustee Executive Team in conjunction with external investment managers and funds.

Investment Objective and Strategy

The Scheme's primary objective is to have sufficient funds to meet the Scheme's liabilities as and when they fall due. It aims to do this by:

- investing in a range of suitable assets of appropriate liquidity which will generate, in the most efficient and effective manner possible, income and capital growth to ensure that, with any required contributions from the Company, there are sufficient assets to meet the cost of the benefits which the Scheme provides in its DB arrangement
- hedging interest and inflation risks to the Scheme's funding by investing in appropriate gilts and interest and inflation swaps
- minimising exposure to excessive short-term volatility of investment returns
- minimising the long-term costs to the Company by maximising the return on the assets, whilst having regard to the risk objectives described above
- hedging longevity risk, by entering into buy-in contracts with insurers and longevity swap contracts to protect against the financial loss associated

with any mortality improvements on a specific set of pensioners.

The Scheme has a framework in place for reaching full funding on a “Long-Term Funding Target” basis of gilts+0.5%. As at the date of this document, the Trustee believes that the Scheme’s investment strategy is sufficient to support this target, within an appropriate degree of risk.

Implementation and Types of Investment

The investment strategy utilises:

- a range of instruments that provide a better match to changes in liability values
- a diversified range of growth assets
- active management of portfolios where this is deemed efficient and effective.

The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Scheme’s investment objective.

Assets may be held in cash and other money market instruments from time to time as may be deemed appropriate.

The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Adviser and the Scheme Actuary, the appropriateness of its investment strategy.

The expected return of the investment strategy will be monitored regularly and with regard to its appropriateness to the Scheme’s investment objective.

There will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets should not disrupt the Scheme's overall Investment Strategy. The Trustee, together with the Scheme's administrators, will hold sufficient cash to meet benefit and other payment obligations.

Risk Measure & Management

The Board recognises a number of risks involved in the investment of the assets of the DB arrangement, and monitors these risks on a regular basis:

Deficit Risk	Measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to current and alternative investment policies; managed through assessing the progress of the actual growth of the liabilities relative to the selected investment. A formal asset/liability monitoring report is reviewed by the Trustee on a quarterly basis, which provides an updated position of the Scheme's funding position.
Manager risk	Measured by the expected volatility of the appointed investment managers' returns, as set out in the manager(s)' objectives, relative to the investment policy; managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager's investment process
Liquidity risk	Measured by the level of cash flow required by the Scheme over a specified period; managed by the Trustee Executive Team through regular communication with the Scheme administrator and the investment managers to ensure that sufficient cash balances are available at the appropriate time and by ensuring that investment is made in suitably liquid and readily realisable assets.
Currency risk	Addressed through the investment manager guidelines and through the implementation of a currency hedging programme, which reduces the impact of exchange rate movements on the Scheme's asset value.
Political risk	Measured by the level of concentration of investment in any one market leading to the risk of an adverse influence on investment values arising from political intervention and action; managed by regular reviews of the actual investments relative to the investment strategy and through regular assessment of the levels of diversification within the existing investment strategy.
Sponsor risk	Measured by the assessed ability and willingness of the Company to support the continuation of the Scheme and to make good any current or future deficits; Managed through

	an agreed Contribution Schedule and Recovery Plan as appropriate, a Long Term Funding Target agreed with the Company and regular reviews of the Company's performance and business outlook undertaken by the Trustee's appointed Covenant Adviser.
Custodian risk	Measured by assessing the credit-worthiness of the custodian bank(s) appointed by the Trustee in respect of segregated investment portfolios and the arrangements associated with the appointed Investment Managers in respect of pooled fund arrangements. Also by assessing the ability of the organisation(s) to settle trades on time and provide secure safekeeping of the assets under custody; managed by monitoring the custodian(s)' activities and discussing the performance of the custodian(s) with the investment managers when appropriate. Restrictions are applied to whom within the Trustee and the Trustee Executive Team can authorise transfers of cash and the account(s) to which transfers can be made.
Environmental Social and Governance ("ESG") risk	Measured by the level of concentration in assets leading to the risk of an adverse impact of investment values arising from manifestation of ESG risks; managed by strategic analysis of the Scheme's investment strategy, regular reviews of assets, regular discussions with the investment managers about ESG risks, and reporting from the Scheme Custodian and the Scheme Investment Advisor. The Trustee has established an ESG Committee to advise the Board, including the Investment Committee, on ESG risks and opportunities.
Fraud/Dishonesty	Addressed through a crime insurance policy, and internal and external audit.
Inappropriate investments	Addressed through constraints on the use of derivatives, gearing, specific asset limits and other restrictions.
Derivatives Risk	Counterparty risk: this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, CSA, GMRA or other relevant derivatives documentation. Basis risk: the returns from assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment objectives adopted by

	the Trustee for such assets and monitoring of the performance of the appointed investment managers. Assumption risk: pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging cashflows and benchmark at appropriate regular intervals. Legal and operational risks: the successful operation of derivatives depends on robust legal documentation governing the derivative contracts and the correct completion of operational support tasks including collateral management. The Trustee takes appropriate legal advice when putting in derivative documentation, reviewing existing arrangements and appointing and monitoring providers capable of carrying out the required operational tasks. The Trustee is also aware of the risks relating to the initial terms of entry (purchasing the swap contracts at a competitive price) and the valuation of the swaps on an ongoing basis and, with the support of their appointed Investment Adviser, the IC monitors these positions on a regular basis.
Buy-in insurer risk	This is the risk that the buy-in insurers fail to pay the benefits secured under the buy-in contract, particularly as the Scheme has opted for uncollateralised agreements. Addressed by having selected a regulated insurer, reliance on the insurance regulatory regime and with appropriate termination rights which have been agreed with the insurers and written into the contracts.

Investment in the Company

Self-investment in the Company's Equity and Debt is limited to that to those held within pooled funds, for example to achieve index tracking, within alternative asset class pooled funds or within AVC funds. The Board monitors these holdings on a quarterly basis to ensure that the statutory 5% overall limit to self-investment is not breached. The holdings of the AVC’s are also included in this calculation.

Investment managers

In accordance with the Financial Services and Markets Act 2000, the Trustee sets the overall investment strategy and implementation policy but delegates the responsibility for selection of specific investments to appointed investment manager(s). The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long-term objectives, and an acceptable level of risk. As part of this process, the Trustee has delegated the detailed monitoring of the Scheme's investment managers to its IC with advice from the Investment Adviser.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also review the investment objectives and guidelines of any particular pooled vehicle for consistency with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.

To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee, or its advisers, will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio (as outlined in the "Responsible Investment" section below) and managers' engagement activities (as outlined in the "Stewardship" section below). If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee may from time to time invest in certain strategies (e.g. hedge fund strategies) where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. It is the Trustee's view that fees linked to investment performance increase complexity and in most cases do not materially improve alignment with long-term objectives. Such fee structures would therefore only be used in a limited number of cases.

The Trustee reviews the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Responsible Investing

The Scheme's primary concern in setting its investment strategy, is to act in the best financial interests of its members and the investment strategy is formulated to support its objective of paying member benefits as and when they fall due.

As the Scheme is now closed to future accrual, the Trustee increasingly holds longer dated assets that better match the liability cashflows of the Scheme. These include credit and real assets. Because they are less liquid, the Trustee is very focussed on the sustainability of these assets that the Trustee's appointed investment managers invest in and the companies and other entities in which they invest or lend to.

The Trustee believes that ESG factors, including Climate Change are financially material considerations that will have significant influence on the future success of companies and their ability to service debt and of security of cashflows and asset values. Integration of ESG factors is fundamental to the design and implementation of the investment strategy of the Scheme.

The Trustee has established an ESG Committee which advises the Board, including the Investment Committee, on ESG risks and opportunities, and recommends governance and policies to manage these. The ESG Committee receives input from the Investment Advisor, the Covenant Advisor, and the Scheme Legal Advisor, where appropriate.

In appointing investment managers, the Trustee, with input from the Investment Advisor, considers in detail their experience and capabilities and in managing ESG factors and sustainability in the securities or assets in which they invest. This assessment forms a part of the regular on-going monitoring of the investment managers. The ESG Committee receives quarterly ESG reporting on the Scheme's liquid investments by the Scheme Custodian Bank, quarterly ESG reporting on the Scheme assets by the Investment Advisor, and annual ESG reporting on the Scheme's investment managers by the Investment Advisor.

Due to the belief that Climate Change will have a significant financially material impact on the Scheme, the Trustee has adopted an ambition of net zero by 2040, with a 50% reduction of carbon emissions by 2030.

At present, the Trustee does not explicitly take account of non-financial matters in the Scheme's investment strategy but may consider reflecting specific non-financial considerations in future.

Stewardship

The Trustee believes that companies that effectively manage Environmental Social and Governance ("ESG") risks can protect and enhance value by, for example, avoiding risk to their reputation, reducing potential financial liability and by increasing their ability to recruit and retain high-quality staff.

Therefore, the Trustee wishes to promote the proactive management of ESG risks amongst the companies in which the Scheme invests and expects its appointed investment managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process and also to exercise their voting rights. To aid the Trustee in monitoring of and engagement with ESG issues, the Trustee requests quarterly voting reports from equity managers, and where possible utilises detailed ESG monitoring of equity and bond mandates through the Scheme's custodian.

The Trustee's policy is to delegate responsibility for exercising of ownership rights (including voting rights) to the investment managers. The Trustees monitors the stewardship practices of its managers to understand how they exercise these duties on their behalf and to aid them in so doing, the Trustee seeks the advice of expertise from third parties.

The Trustee is a signatory to the United Nations Principles of Responsible Investment. The Scheme has consolidated the equity exposure within the portfolio to Legal & General Investment Management's Future World funds, and therefore adopts the engagement policy of Legal & General Investment

Management. The ESG Committee reviews the voting and engagement record of Legal & General Investment Management on an annual basis.

AVC

The Scheme's AVC arrangement is now closed to new monies. However, for monies previously invested, the AVC arrangement is a money purchase platform offering a range of investment alternatives, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns, net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide 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. The AVC fund options are regularly reviewed by the IC.