Marks and Spencer Pension Scheme

Scheme Registration Number: 10098798

Trustee's Annual Report and Financial Statements
Year Ended 31 March 2022

Contents

Trustee, Sponsoring Employer and Advisers

Trustee:	Marks and Spencer Pension Trust Limited
Sponsoring Employer:	Marks and Spencer plc
Actuary:	Colin G Singer FIA Willis Towers Watson
Solicitors:	Linklaters LLP
Auditor:	KPMG LLP
Bankers:	HSBC Bank plc
AVC Provider:	Legal & General Assurance (Pensions Management) Limited
Investment Adviser:	Willis Towers Watson Investment Limited
Longevity Risk Management Adviser:	Lane, Clark & Peacock LLP
Communications Consultant:	Capita Pension Solutions Limited (Formerly Capita Employee Solutions)
Custodian:	The Northern Trust Company
Covenant Adviser:	Ernst & Young LLP
Administrator:	Marks and Spencer plc Capita Pension Solutions Limited (Formerly Capita Employee Solutions)
Secretary to the Trustee:	Simon Lee

Trustee, Sponsoring Employer and Advisers

Investment Managers:

Growth Asset Managers

Equities:	Legal & General Investment Management Limited GW&K Investment Management LLC (Terminated 13 August 2021)
Global Property:	CB Richard Ellis Collective Investors
Hedge Funds:	GAM Systematic LLP (formerly Cantab Capital Partners) (Terminated 4 May 2021) River Birch International Limited Waterfall Asset Management, LLC
Private Equity:	Advent International, LP American Securities Partners Cabot Square Capital LLP Emerald Hill Management Limited Energy Capital Partners Generation Investment Management LLP HG Capital LLP Navis Capital Partners
Infrastructure:	Alinda Capital Partners LLC BlackRock Advisors (UK) Limited Equis Funds Group Pte Limited Global Infrastructure Partners

Credit-based and Secure Income Alternative Asset Managers

Bonds and low risk credit-based:	Alcentra NY, LLC AXA Investment Managers UK Limited BlackRock Advisors (UK) Limited Ninety One UK Limited (formerly Investec Asset Management Limited)
Secure income alternatives:	Alpha Real Capital LLP Alvarium Investments Limited BlackRock Advisors (UK) Limited Dalmore Capital Limited Equitix Investment Management Limited Greencoat Capital LLP Henley Investment Management Limited Knight Frank Investment Management LLP Macquarie Financial Products Management Limited Waypoint Investment Management Limited

Matching Assets Managers

Liability driven investment:	BlackRock Advisors (UK) Limited Insight Investment Management (Global) Limited
Currency Hedge Overlay:	BlackRock Advisors (UK) Limited
Bulk Annuity Policy Providers:	Aviva Life and Pensions UK Limited Phoenix Life Limited Pension Insurance Corporation plc

Trustee, Sponsoring Employer and Advisers

Investment Managers (continued):

Growth Asset Managers (continued)

Reinsurance:	Credit Suisse AG Nephila Capital Limited Securis Investment Partners LLP
Other Growth Assets:	CarVal Investors, LLC DW Partners, LP Hayfin Direct Lending GP Limited PIMCO LLC Octopus AIF Management Limited (Formerly MedicX Adviser Limited)

Trustee's Report

Introduction

The Trustee of the Marks and Spencer Pension Scheme has pleasure in presenting its annual report together with the Investment Report, Implementation Statement, Actuarial Statement and Certification, Summary of Contributions, Compliance Statement and Financial Statements for the year ended 31 March 2022.

Scheme Management

The Scheme

The purpose of the Scheme is to provide retirement benefits for Scheme members and, in the event of a member's death, to provide benefits to their spouse and dependents as prescribed in the rules.

The Scheme is a Defined Benefit pension Scheme governed by a Trust Deed and Rules which provides benefits based on a member's salary and length of service. Its membership consists of eligible employees who started service with the Company on or before 31 March 2002.

Between April 2002 and July 2012, new employees were eligible to join the Defined Contribution section of the Scheme which was known as "the Retirement Plan". On 31 July 2012, all Retirement Plan members' benefits were transferred to Your M&S Pensions Savings Plan, a Defined Contribution pension Scheme under a Master Trust.

With effect from 1 April 2017, the Scheme closed to future benefit accrual, meaning that members do not earn any new benefits in the Scheme after that date.

The Scheme is a registered Pension Scheme under the Finance Act 2004. This means that members, their employers and the Scheme benefit from favourable tax treatment.

The Sponsoring Employer

The sponsoring employer is Marks and Spencer plc, Waterside House, 35 North Wharf Road, London, W2 1NW hereafter known as "The Company". The Company is vested with certain powers and duties such as the appointment of the Trustee.

The Trustee

The Scheme is managed by a corporate Trustee, Marks and Spencer Pension Trust Limited, Waterside House, 35 North Wharf Road, London, W2 1NW (Registered No 00326199).

Trustee Directors:

Company Appointed Trustee Directors	Graham Oakley (Chairman) Richard Fox Fraser Ramzan (resigned 30 March 2022) Graham Bennett Stephen Spellman (appointed 30 March 2022)
Independent Trustee Directors	The Law Debenture Pension Trust Corporation plc (represented by Vicky Paramour to 31 December 2021) and (represented by Sean Burnard from 1 January 2022) Gareth Derbyshire
Member Nominated Trustee Directors	Ann Govier Alison Houston Richard Wolff (resigned 30 March 2022) Kate Upcraft (appointed 30 March 2022)

Trustee's Report

Scheme Management

The Trustee (continued)

At least one third of the Trustee Board is nominated by Scheme members. Currently there are three Member Nominated Trustee Directors, two independent Trustee Directors and four company appointed Trustee Directors.

Trustee Directors serve for a maximum term of five years after which their appointments may be extended for a further period. All eligible Scheme members can apply for Member Nominated Director vacancies.

Marks and Spencer plc has the power to appoint and remove Directors of the Trustee within the restrictions imposed by the regulations relating to Member Nominated Directors.

The Trustee Board met six times during the year. In addition to Board meetings, the Trustee usually holds an annual Strategy Day and Trustee Directors participate in the following seven committees:

(i) Investment Committee

The Scheme assets are invested externally with the investment managers listed on pages 3 and 4.

The Investment Committee's key role is to review and implement the investment strategy and make recommendations for strategy changes to the Trustee Board. The Committee's responsibilities include overall asset allocation, agreeing de-risking trades, reviewing investment policy, the setting of objectives for the Investment Management Committee, maintaining the Statement of Investment Principles and monitoring the performance of investment managers, including their management of Environmental, Social and Governance (ESG) risks and the investment advisers.

(ii) Management and Governance (M&G) Committee

The M&G Committee is responsible for the supervision of the operational aspects of the Scheme as well as regulatory and governance issues.

The Committee has a number of regular items on its agenda including governance, compliance, member communications, and reports from the Scheme Administrator on members' benefits and from Legal & General in respect of the AVC funds. The Committee also monitors the member administration service levels achieved and considers Trustee training requirements and how best these are to be met.

(iii) Finance, Audit and Risk Committee

The Finance, Audit and Risk Committee is responsible for overseeing the annual external audit of the Scheme, managing tax matters, reviewing financial controls and the assessment of risks and how they are being mitigated. It also periodically reviews the external auditor and tax adviser appointments in accordance with the timetable included in the Trustee's Business Plan.

(iv) Valuation Committee

The Valuation Committee is established by the Trustee Board as required and makes recommendations on the triennial actuarial valuation. It considers the assumptions to be used in the valuation and proposals made by the Sponsoring Employer.

(v) Investment Management Committee (previously the Growth Assets Committee)

The Investment Management Committee has been established by the Investment Committee and oversees the Scheme's investments in equity, credit, private equity, infrastructure, secure income alternatives and other growth assets. For these asset classes it also monitors investment performance against the objectives set by the Investment Committee and appoints and removes investment managers.

Trustee's Report

Scheme Management

The Trustee (continued)

(vi) ESG Committee

The ESG Committee was established in July 2021 and is responsible for exploring the opportunities and risks within ESG.

(vii) Material Events Committee

The Material Events Committee was established in April 2022, after the year end, with the main aim of responding to material events and mitigating reputational risks on behalf of the Trustee.

Terms of reference have been agreed for each Committee setting out its role, composition and delegated powers of authority. The Trustee may from time-to-time set up other Committees or Working Groups to provide input and recommendations to the Trustee Board on specific projects or other pieces of work. Working Groups have powers only to make recommendations to the Trustee Board or Committees and are also attended by representatives of the Company and its advisers.

Trustee training

Under the Pensions Act 2004, Trustees of Occupational Pension Schemes are required to have appropriate *"Knowledge and Understanding"* of the law relating to pensions and trusts and the principles relating to the funding of occupational Schemes and the investment of Scheme assets. The Pensions Regulator has issued a Code of Practice providing additional guidance on how this requirement can be met in practice.

The Scheme's Trustee Directors meet their training needs through:

- Review of Scheme specific information and an induction program shortly after their appointment
- Completing tPR's online toolkit
- Regular training sessions on topical items
- Attendance at in-house training days and external courses, seminars and conferences
- Use of online Trustee training tools, and
- Access to Scheme governance documentation through a Boardroom portal

A log of Trustee Training and individual attendance is kept and monitored. A Trustee Effectiveness assessment is undertaken annually and reviewed by the Trustee Board with outcomes used to improve efficiency and effectiveness of the Scheme's governance.

Rule changes

There were no changes to the Scheme rules during the year.

Scheme Advisers

The names of the professional advisers to the Trustee and other individuals and organisations who have acted for or were retained by the Trustee during the year are listed on page 2.

Changes in and other matters relating to the Scheme advisers

The Trustee regularly reviews each of the Scheme's advisers, there were no changes in the year.

Scheme audit

The Financial Statements have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

Trustee's Report

Scheme Management

Our net zero commitment

As one of the UK's largest pension funds, we know that how and where we invest matters. We firmly believe that investing responsibly supports long term value, reduces risk, and contributes towards better outcomes for everyone.

Climate change is a clear and present risk to the Scheme, not just a future risk. That's why the Scheme announced an ambitious 2040 net zero greenhouse gas emissions goal.

Getting to net zero will involve both reducing emissions from our portfolio and investing in assets that will support the transition towards a low carbon economy. We've already made progress, but we know we need to do more. The first step in our net zero journey will be to reduce our carbon emissions by half by 2030.

This is not something we can do alone, we're working hard with our advisers and appointed investment managers to make this a reality. You, our members, can also make a difference by choosing to receive digital communications which will help reduce the Scheme's carbon emissions.

M&S has been leading the way on climate change for decades and we're working together to help make sure the Trustee reaches its goal.

We're committed to making a difference and sharing with you what we're doing and why it matters.

Task Force on Climate-related Financial Disclosures (TCFD) Report

This year we publish our first Climate Change Report, which will provide more information about our net zero goal and our journey towards it. It will also share more information about how the Trustee will manage the risks the Scheme may face in the challenge to combat climate change.

www.mandspensionscheme.com/sustainability

Triennial Valuation

The latest valuation was completed as at 31 March 2021. The results are contained in the Report on Actuarial Liabilities on page 20.

Conflict in Ukraine

At the outset of the conflict the Trustee took action to consider potential exposures to Russia and Belarus, as well as contacting all Scheme advisers to understand the actions they were taking in respect of business operations in Russia. At that time less than 0.05% of the total amount held in the Scheme was invested in Russia and Belarus, these investments are held through pooled funds and we worked with the investment managers to remove these holdings as market conditions allowed.

COVID-19

During the year, the Trustee continued to monitor potential impacts and implications of Covid-19.

The Trustee Board and its Committees has returned to in person meetings. These are supplemented by hybrid meetings or virtual meetings as required. This flexibility has worked well for the Trustee Board, and we will continue to keep this under review.

Trustee's Report

Scheme Management

Financial Development of the Scheme

A summary of the Scheme's Financial Statements for the year ended 31 March 2022 is set out in the table below:

	2022 £m	2021 £m
Member related income	**4.4**	4.3
Member related payments	**(359.1)**	(379.2)
Net withdrawals from dealings with members	**(354.7)**	(374.9)
Net returns on investment	**41.6**	(25.0)
Net decrease in the fund	**(313.1)**	(399.9)
Net assets at start of year	**10,693.2**	11,093.1
Net assets at end of year	**10,380.1**	10,693.2

During the year, member related income increased by £0.1 million to £4.4 million. Member related payments decreased by £20.1 million to £359.1 million, largely due to a decrease in transfers out for members that have left service.

The net returns on investments comprised of investment income of £93.2 million (2021: £227.8 million) and offset by the change in market value of investments of £46.6 million (2021: £240.8 million) and investment management expenses of £5.0 million (2021: £12.0 million).

The net assets of the Scheme amounted to £10,380.1 million at 31 March 2022 (2021: £10,693.2 million).

Recent events

Equalisation of Guaranteed Minimum Pension

The High Court judgments made at the end of 2018 and at the end of 2020 in relation to Guaranteed Minimum Pensions (GMPs) confirmed that pension schemes need to make sure GMPs built up between 17 May 1990 and 6 April 1997 are equal between men and women.

The Department for Work and Pensions, HMRC and an industry working group have been producing guidance on how this will work in practice. There have also been further court judgments that have provided additional clarity for pension schemes on how to deal with things that have happened in the past.

The Trustee and Company continue to work together to understand the impact of these developments on the Scheme, however the equalisation of individual GMP benefits is a complex matter and it is likely that it will take some time to identify and update members who may be impacted. A project is underway with the Scheme's administrator to consider the data and how the required changes can be implemented.

Scottish Limited Partnership Re-profiling

In June 2021, the Trustee agreed with the Company to re-profile certain parts of the Scottish Limited Partnership (SLP) coupon payments over the period until 2024. This formalised the discussions that had commenced in March 2020 and was designed to support the Company through the COVID pandemic and impacts on its business operations and maintain the covenant of the Company. The Trustee continued to discuss with the Company how the security provided by the SLP might be improved over the longer term and in March 2022 the Company agreed to provide an additional temporary capital contribution to the SLP of £40m.

These discussions involved meetings with the Company and advice from Ernst & Young on covenant matters, Willis Towers Watson on funding matters and legal advice from Linklaters.

Trustee's Report

Scheme Management

Bulk Annuity Policies

The Trustee continues to consider the appropriate level of longevity hedging in the Scheme and the instruments that might be used to achieve this including buy-ins, longevity swaps etc. It has established a Longevity Hedging Working Group to consult with the Company on any necessary changes to the Statement of Investment Principles as a consequence of any longevity hedging transactions. The existing Buy-In transactions have been effective in reducing the overall longevity risk in the Scheme by hedging such risks in pensions in payment.

Judicial review of RPI reform

On the 25 November 2020, HM Treasury and UK Statistics Authority (the UKSA) announced the UKSA's decision to effectively replace the Retail Price Index (RPI) with the Consumer Price Index including owner occupiers' housing costs (CPIH). Following input from HM Treasury, this is proposed to take effect from 2030.

The announcement was in response to a consultation which asked for views on potential changes to the RPI methodology and when any such changes should be introduced and also confirmed that the government would not be offering any compensation to the holders of new style Index-Linked Gilts (those issued from 2002).

The Scheme holds over £1.25bn of these Index Linked Gilts so the impact on Scheme assets and the security of members' benefits is potentially material as the returns on these Gilts after 2030 are expected to be lower.

In addition, under the current Scheme Rules, members have their annual pension increases calculated with reference to RPI. Effectively replacing RPI with CPIH would mean lower expected pension increases from 2030 because CPIH is typically lower than RPI by around 1% per annum.

As a result, the Trustee has joined with the Trustees of the BT Pension Scheme and Ford Pension Schemes to apply for a Judicial Review of the decision to effectively replace RPI with CPIH from 2030.

The court gave permission for the claim to proceed to a full hearing and this took place in June 2022. The outcome is expected within 3 months.

Pension Schemes Act 2021

The Pension Schemes Bill received Royal Assent on 11 February 2021 to become the Pension Schemes Act 2021. The Act includes a package of measures aimed at strengthening the powers of the Pensions Regulator (tPR), as well as some fundamental changes to the scheme funding regime and new reporting obligations for trustees in relation to climate change risk, and the Trustee has presented its first report.

Draft single code of Practice

The Pensions Regulator (tPR) has concluded its consultation on the new Single Code of Practice (including a full draft of the Code). The new Code aims to bring together all 15 existing Codes of Practice, plus various pieces of existing guidance and new material required as a result of the 2018 Occupational Pension Schemes (Governance) regulations.

The new code has not yet been issued, but the Trustee has continued to review the draft Code and will assess whether current governance practices meet tPR's new expectations.

The Trustee's obligations under the UK GDPR are fundamentally the same as our obligations under the EU GDPR and it continues to remain subject to UK Data Protection laws.

Trustee's Report

Scheme Management

SIP Implementation Statement

The Scheme is required to include an implementation statement. The implementation statement is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP with a focus on stewardship activities, implementation of the main investment principles and ESG factors. The detailed statement is on pages 46 to 61. The Trustee confirms that it has complied with the SIP during the year.

Pension increases

Pensions in payment were increased by 5.0% effective from 1 May 2022 (2021: 1.2%). For members who had been receiving their pension for less than a year, a proportionate increase was awarded.

The pension increases referred to above do not apply to elements of the pension representing (i) benefits that were transferred into the Scheme or (ii) Guaranteed Minimum Pensions (GMPs) which the Scheme is required to provide as a consequence of contracting out of the State pension arrangements. GMPs relate to service accrued from April 1978 to April 1997. GMP earned after April 1988 will be increased by the Scheme in line with inflation, as required by legislation, up to a maximum of 3% per annum.

Deferred pensions have been increased in line with statutory requirements.

All increases were in accordance with the Scheme's Rules. There were no discretionary increases awarded in the year.

Transfer values

Members who have a deferred pension have the option of transferring the value of their benefit to another approved pension arrangement. In calculating the transfer value no allowance is made for discretionary increases.

Transfer values are calculated and verified as required under the provisions of the Pension Schemes Act 1993.

Scheme membership information

Membership as at 31 March	**2022**	**2021**
Pensioners	53,270	52,794
Deferred members	51,444	53,674
Total	**104,714**	106,468

The following are included in the membership information above:

	2022	**2021**
Isle of Man Section		
Pensioners	5	4
Deferred members	48	52
Insured by annuity policies		
Pensioners	34,758	35,623

Trustee’s Report

Scheme Management

Summary of Contributions

This Summary of Contributions has been prepared by, and is the responsibility of, the Trustee. It sets out the employer and member contributions payable to the Scheme under the Schedule of Contributions certified by the Actuary on 6 November 2018 in respect of the Scheme year ended 31 March 2022. The Scheme Auditor reports on contributions payable under the Schedule in the Auditor’s Statement about Contributions.

Contributions payable under the Schedule in respect of the Scheme year	£m
Employer	
Other contributions	4.4
Contributions payable under the Schedule (as reported on by the Scheme Auditor) and as reported in the Financial Statements	**4.4**

The Schedule of Contributions requires that an additional employer contribution is made to meet the costs of the Pension Protection Fund (PPF) levy, the PPF administration levy and the Pensions Regulator’s general levy. These are payable within two months of the levy invoice being received by the Scheme.

Statement of Trustee’s Responsibilities in respect of contributions

The Scheme Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for monitoring that contributions are made to the Scheme in accordance with the Schedule.

Investment Matters

Overview

The Trustee, with the assistance of its appointed investment adviser, determines the overall investment strategy for the Scheme and sets out the broad policy to be adopted by each of the appointed fund managers.

Investment objective and strategy

The investment objective set by the Trustee is to have sufficient funds to meet the Scheme's liabilities as and when they fall due. It has agreed a framework which aims to achieve 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.
- Hedging interest and inflation risks to the Scheme's funding by investing in appropriate gilts and interest and inflation swaps and long-dated income-generating real assets.
- Minimising exposure to excessive short-term volatility of investment returns.
- Minimising the long-term costs to the Principal Employer by maximising the return on the assets, whilst having regard to the risk objectives described above.
- Hedging longevity risk, by entering into bulk annuity contracts with insurers and longevity swap contracts to protect against the financial loss associated with any mortality improvements on specific subsets of pensioners.

The Trustee sets the investment strategy for the Scheme, after taking advice from the Scheme's Investment Adviser and having consulted with the Sponsoring Employer of the Scheme. The investment strategy utilises:

- A 'liability driven' approach which uses a range of instruments (bonds and derivatives) to more closely align movements in the Scheme's asset value with movements in the estimated value of the pension liabilities. The Scheme also invests in assets which align with the Scheme's outgoing cash-flow requirements (long-dated buy-and-maintain bonds, and secure income alternatives);
- A diversified range of growth assets, including (but not limited to) equities, credit and property.
- Active management of portfolios where this is deemed efficient and effective.

There are regular reviews of the Scheme's liability profile, the appropriateness of the investment strategy and the expected return from it. Sufficient cash and other liquid assets are held to meet expected cash flow requirements and to minimise the risk of asset realisation disrupting the overall investment strategy.

The Scheme has a risk monitoring framework which is used to assess if risk in the investment strategy is appropriate given the level of return required from the portfolio, and asset level targets for fully funding the Scheme's liabilities.

In accordance with s.35 of the Pensions Act 1995, a Statement of Investment Principles (SIP) has been prepared by the Trustee which incorporates the investment strategy. A copy of the SIP is available on the Scheme website and can also be found in Appendix B on pages 62 to 69.

Investment management

Responsibility for day-to-day management of investments is delegated to the external investment managers listed on pages 3 and 4. The Trustee has negotiated contractual agreements with each of these investment managers which govern the way in which they each manage their respective portfolios and specify how rights attaching to the directly held investments under their management are acted upon.

Trustee's Report

Investment Matters

Investment management (continued)

The Trustee believes that companies that effectively manage Environmental, Social and Corporate Governance (ESG) risks can protect and enhance shareholder 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. The Trustee is mindful of the long-term nature of the Scheme liabilities, and the need for assets to support these liabilities through long-term sustainable focus. Therefore the Scheme 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.

The Trustee has designed and implemented ongoing ESG monitoring for all equity and fixed income assets through the Scheme's Custodian and is currently developing a wider ESG management, reporting and engagement strategy that will also encompass other assets including Secure Income alternative assets.

Net Zero Target-Climate Change is recognised as a key current and future risk for the Scheme. In March 2022, the Scheme set Net Zero Target of net zero greenhouse gas emissions by 2040. As part of this Target, the Scheme is aiming to halve carbon emissions by 2030. Achieving this Target will involve reducing emissions from the portfolio and investing in assets with the potential to support the transition towards a low carbon economy. The Scheme is working with its advisers and appointed investment managers towards this end. The Scheme's first Climate Change Report, which will provide more information about our net zero goal and our journey towards it, will be published in Summer 2022. The report's main function is to demonstrate the Scheme's compliance with Task Force for Climate-related Financial Disclosures (TCFD) requirements, including information about how the Trustee aims to manage risks to the Scheme resulting from climate change.

The Trustee maintains a Responsible Investment Framework, and which is published on the Scheme website. Copies are available on request.

The Scheme is also a signatory to the United Nations Principles for Responsible Investment.

The Scheme's Responsible Ownership Policy Statement is published on the Scheme's website and copies are available on request. Voting rights on equities, which are now all held in pooled funds are exercised by the pooled fund managers.

Typically, investment managers are remunerated by fees based on a percentage of funds under management. Performance related fee arrangements have also been negotiated with some of the Scheme's investment managers.

There is an annual review of investment managers' internal control reports and the audited Financial Statements of pooled investment vehicles.

Investment principles

In accordance with Section 35 of the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles which includes the Trustee's policy relating to ethical investment and the exercise of the rights attaching to investments. This Statement may change from time to time according to advice received from the Investment Consultant.

Trustee’s Report

Investment Matters

Departures from investment principles

There were no departures from the provisions set out in the Statement of Investment Principles. The investment strategy is reviewed from time to time and there may be short periods during which the SIP has not been updated to reflect changes to the investment strategy.

Custodial arrangements

Custodian services are provided by The Northern Trust Company. In accordance with normal practice, the Scheme’s direct investments are registered in the name of the custodian’s own nominee company with designation for the Scheme. The Trustee reviews the internal control reports produced by the custodian and performs regular reconciliations between the custodian’s records of securities and cash and those of the investment managers.

Self-investment

The Statement of Investment Principles prohibits the Scheme from holding shares of Marks and Spencer Group plc except for any indirect exposure through units held in pooled vehicles. Details of the indirect exposure to Marks and Spencer Group shares are shown in Note 18 on page 44.

Investment developments during 2021/22

During the 2021/22 financial year, investment developments included:

- Increased allocation to illiquid credit in the Opportunistic Portfolio through investments in the PIMCO Bravo IV and PIMCO COF III Funds.
- An increase in the Scheme’s investment in the Solactive L&G ESG Emerging Markets Index, funded by the termination of an Active Emerging Markets equity portfolio with GW&K Investment Management. All current equity allocations are now managed by LGIM Ltd.
- An increase in the Scheme’s allocation to the Waterfall Eden hedge fund (Waterfall Asset Management, LLC), partially funded through termination on closure of the GAM Systematic LLP hedge fund.

The Trustee continues to monitor longevity risks in the Scheme and the level of existing hedging of such risks through the buy-in transactions that have been executed to date.

Trustee's Report

Investment Matters

Asset allocation

The Scheme does not have a formal fixed benchmark asset allocation policy and instead explicitly targets an expected investment return and level of investment risk that is diversified and expected to evolve over time in accordance with the Scheme's funding level.

Consequently, the Investment Committee has implemented a quarterly monitoring framework that considers whether the Scheme's funding level and expected investment return are appropriate to achieving the Trustee's long-term funding objectives. The Investment Committee takes advice from the Scheme's Investment Advisers whether to make changes to the level of investment risk in the Scheme.

The target asset allocation benchmark of the Scheme as at 31 March 2022 is to hold broadly:

- 15% in diversified growth assets, including equities, global property, hedge funds, opportunistic credit, alternative beta, private equity and infrastructure.
- 29% in credit-based assets and secure income alternatives. This includes corporate bonds, global government bonds, lower risk credit-based assets, the property backed partnership and cross currency swap assets contributed by the Company.
- 30% in matching assets that hedge against the impact that interest rate and inflation movements have on the Scheme's long-term liabilities. The matching asset portfolio comprises UK government bonds, swaps, cash and repurchase agreements ('repos').
- 26% in bulk annuity policies to protect against the financial loss associated with any mortality improvements on a specific set of pensioners.

In addition, the Scheme has a currency overlay programme to hedge certain foreign currency exposures, in the investment portfolio, further details of which can be found in the Currency Risk section of Note 17.

The Scheme's actual asset allocation as at 31st March 2022 is shown below: -

Asset Class	**2022**		**2021**	
	£m	%	£m	%
Growth assets	1,781.2	17.3	1,485.1	14.0
Credit and secure income assets	3,005.6	29.1	3,213.1	30.2
Matching assets	2,531.1	24.5	2,600.7	24.5
Bulk annuity policies	3,005.4	29.1	3,331.6	31.3
Total	**10,323.3**	**100.0**	10,630.5	100.0

Excluding bulk annuities, the above investments achieved a combined annual return of -0.5% over the year to 31 March 2022, 1.1% annualised over three years and 2.0% annualised over five years to 31 March 2022. This compares to the Scheme specific benchmark returns of 1.6%, 4.2% and 3.8% annualised for one, three and five years respectively.

Trustee's Report

Investment Matters

Bulk Annuity Policies

The Trustee continues to consider the appropriate level of longevity hedging in the Scheme and the instruments that might be used to achieve this including buy-ins, longevity swaps etc. It has established a Longevity Hedging Working Group to consult with the Company on any necessary changes to the Statement of Investment Principles as a consequence of any longevity hedging transactions. The existing Buy-In transactions have been effective in reducing the overall longevity risk in the Scheme by hedging such risks in pensions in payment.

Additional Voluntary Contribution (AVC) investments

The Scheme's AVC arrangement is now closed to new monies. However, for monies previously invested, the AVC arrangement is a defined contribution 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.

The investment objective of the AVC funds is to offer members a suitable range of investment funds that carry an appropriate level of investment return and risk commensurate with each of their published investment strategies. The AVC fund options are regularly reviewed by the Investment Committee.

Legal & General Assurance is the investment manager for the AVC funds. The AVC unit funds are priced and traded daily. The Trustee regards the AVC fund investments as readily marketable, whilst recognising that a short delay may apply for property funds. Members holding AVC funds are provided with a statement each year.

The Scheme's AVC arrangement has £6.7m (2021: £6.6m) of investments being managed by Legal & General.

Further investment disclosures

Further details on the Investment Strategy, objectives and Investment risks are disclosed in note 17 on pages 40 to 44.

Trustee's Report

Compliance Matters

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with Schedule 3 of The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 or voluntarily by the Trustee. The information deals with matters of administrative routine.

Transfer Values

Transfer values are calculated and verified as required under the provisions of the Pension Schemes Act 1993.

Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of part 4 of the Finance Act 2004.

Related Party Transactions

The Sponsoring Employer has paid some of the costs of administering the Scheme for the year and has invoiced the Scheme during the year.

Further details of related party transactions are given in note 22 to the Financial Statements.

MoneyHelper

The Money and Pensions Service (MaPS) was created in 2019 as a single body to bring together the services previously delivered by The Pensions Advisory Service (TPAS), the Money Advice Service and Pension Wise, providing information to the public on matters relating to workplace and personal pensions. With effect from 30 June 2021 MaPS has been re-branded as MoneyHelper but still offers all the same services.

Address 120 Holborn, London, EC1N 2TD

Telephone: 0800 011 3797

Email: pensions.enquiries@moneyhelper.org.uk

Website: https://www.moneyhelper.org.uk

Pensions Ombudsman

The Pensions Ombudsman will assist members and beneficiaries of the Scheme in connection with difficulties which they have failed to resolve with the Trustee or Administrator of the Scheme and may investigate and determine any complaint or dispute of fact or law in relation to an Occupational Pension Scheme.

The Pensions Ombudsman may be contacted at 1st Floor, 10 South Colonnade, Canary Wharf, London E14 4PU

Telephone: 0800 917 4487 Early resolution email: helpline@pensions-ombudsman.org.uk Email: enquiries@pensions-ombudsman.org.uk

Pensions Regulator

The Pensions Regulator is able to intervene in the running of Schemes where Trustees, Employers or Professional Advisers have failed in their duties.

The Pensions Regulator may be contacted at Napier House, Trafalgar Place, Brighton, BN1 4DW.

Telephone: 0345 600 7060

Pension Tracing

A pension tracing service is carried out by the Department for Work and Pensions.

The Pension Tracing Service may be contacted at The Pension Service 9, Mail Handling Unit A, Wolverhampton, WV98 1LU. Telephone: 0800 731 0193

Statement of Trustee’s Responsibilities

The audited Financial Statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, are the responsibility of the Trustee. Pension Scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited Financial Statements for each Scheme year which:

(i) show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and

(ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes*.

The Trustee has supervised the preparation of the Financial Statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for:

- assessing the Scheme’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee’s annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the Financial Statements it accompanies as making available each year, commonly in the form of a Trustee’s annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is fair and impartial.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee’s responsibilities accompanying the Trustee’s summary of contributions.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the Scheme and financial information included on the Scheme’s website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2021. This showed that on that date:

The value of the technical provisions was	£10,006 million
The value of the assets as at that date was	£10,693 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

Method

The actuarial method used in the calculation of the technical provisions is the projected unit credit method.

The value placed on the pensioner liabilities covered by the bulk annuity policies held by the Scheme are taken to be equal to the value of these policies as reported in the Trustee's Financial Statements.

Significant actuarial assumptions (used in valuation of non-insured liabilities)

Discount rate:	Based on fixed-interest gilt yields plus 0.90% pa net of investment expenses.
Retail Price inflation (RPI):	As implied by gilt yields
Consumer Price inflation (CPI):	0.85% pa below RPI until 2030, in line with RPI inflation thereafter
Revaluation in deferment:	Lesser of the relevant revaluation cap and CPI
Pension increases in payment:	Derived from rates implied by assumed inflation and swap pricing allowing for the caps and floors on pension increases
Mortality:	"S3" standard tables published by the Continuous Mortality Investigation (CMI) and calibrated based on recent Scheme experience, together with future longevity improvements in line with the CMI 2020 Core Projections Model with a long-term improvement rate of 1.5% pa, a smoothing parameter of 7.5, an initial addition of 0.25% pa and a 2020 experience weighting parameter of 0.
Commutation factors:	Allowance for 22.5% of allowable amount based on commutation factors assumed to be 20% higher than the factors in force at 31 March 2021.

The next valuation of the Scheme is due to be carried out with an effective date no later than 31 March 2024.

Expense Reserve

A reserve of £20m has been established in relation to administration and other non-investment expenses covering the period from 1 July 2022 to 30 September 2025.

GMP equalisation

In October 2018, the High Court ruled in a case involving the Lloyds Banking Group Defined Benefit Schemes, that it is necessary to equalise Guaranteed Minimum Pensions (GMPs) built up between 17 May 1990 and 5 April 1997 between men and women. The impact on benefits from equalising GMPs will differ between individual members. However based on the estimated impact across the Scheme as a whole, a reserve of 0.2% was included in the calculation of the technical provisions as at 31 March 2021 to allow for the expected additional liabilities arising as a result of equalising GMPs. The reserve covers both insured and non-insured liabilities.

Contact for Further Information

Any enquiries or complaints about the Scheme, including requests from individuals for information about their benefits or Scheme documentation, should be sent to,

M&S Pensions Administration Team
Capita Pension Solutions
PO Box 555
Stead House
Darlington
DL1 9YT

Helpline: 0345 304 7474
Email: mandspensions@capita.co.uk
Website: www.mandspensionscheme.com

Approval of the Annual Report

This Trustee's Report was approved by the Trustee of the Marks and Spencer Pension Scheme on 13 July 2022 and signed on its behalf by:

G J Oakley	**G Derbyshire**
Marks and Spencer Pension Trust Limited	**Marks and Spencer Pension Trust Limited**

Actuary’s Certification of the Schedule of Contributions

The Marks and Spencer Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2021 to continue to be met for the period for which the Schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 29 June 2022.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

C G Singer
Fellow of the Institute and Faculty of Actuaries

30 June 2022

Towers Watson Limited, a Willis Towers Watson Company
Watson House
London Road
Reigate
RH2 9PQ

Independent Auditor's Statement about Contributions to the Trustee of the Marks and Spencer Pension Scheme

Statement about contributions

We have examined the summary of contributions payable under the Schedule of Contributions to the Marks and Spencer Pension Scheme in respect of the Scheme year ended 31 March 2022 which is set out on page 12.

In our opinion contributions for the Scheme year ended 31 March 2022 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the actuary on 6 November 2018.

Scope of work on statement about contribution

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedule of contributions.

Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 19, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, for our work, for this statement, or for the opinions we have formed.

Fang Fang Zhou

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London E14 5GL

Date: 22 July 2022

Independent Auditor’s Report to the Trustee of the Marks and Spencer Pension Scheme

Opinion

We have audited the Financial Statements of the Marks and Spencer Pension Scheme (“the Scheme”) for the year ended 31 March 2022 which comprise the Fund Account, the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 3.

In our opinion the Financial Statements:

- Show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2022 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- Have been properly prepared in accordance with UK accounting standards, including FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- Contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the Financial Statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme’s financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Financial Statements (“the going concern period”).

In our evaluation of the Trustee’s conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme’s financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified and concur with the Trustee’s assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee, as to the Scheme's high-level policies and procedures to prevent and detect fraud, as well as enquiring whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Trustee's minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Trustee (or its delegates including the Scheme administrator) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of the Scheme's investment in a Special Purpose Vehicle, annuity contracts and level 3 pooled investment vehicles. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed Schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted after the first draft of the financial statements have been prepared.
- Assessing whether the judgement made in making accounting estimates are indicative of potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee and Scheme Management (as required by auditing standards) and discussed with the Trustee and Scheme Management the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme's procedures for complying with regulatory requirements and reading the minutes of Trustee's meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Independent Auditor’s Report

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations (continued)

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Scheme is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme’s registration. We identified the following areas as those most likely to have such an effect: pensions legislation data protection legislation and, recognising the financial and regulated nature of the Scheme’s activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and its delegates and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the schedule of contributions in our statement about contributions on page 23 of the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustee is responsible for the other information, which comprises the Trustee’s report (including the report on actuarial liabilities, implementation statement and the summary of contributions) the statement of investment principles, and the actuarial certification of the schedule of contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Independent Auditor's Report

Trustee's responsibilities

As explained more fully in its statement set out on page 19, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

Fang Fang Zhou
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL
Date: 22 July 2022

Fund Account for the year ended 31 March 2022

	Note	Total 2022 £m	Total 2021 £m
Contributions and benefits			
Employer contributions		4.4	4.3
Total contributions	4	**4.4**	4.3
Benefits paid or payable	5	(287.6)	(287.5)
Payment to and on account of leavers	6	(65.9)	(87.1)
Administrative expenses		(5.6)	(4.6)
		(359.1)	(379.2)
Net withdrawals from dealings with Members		**(354.7)**	(374.9)
Returns on investments			
Investment income	7	93.2	227.8
Change in market value of investments	8	(46.6)	(240.8)
Investment management expenses		(5.0)	(12.0)
Net returns on investments		**41.6**	(25.0)
Net decrease in the fund during the year		**(313.1)**	(399.9)
Net assets of the Scheme at 1 April		**10,693.2**	11,093.1
Net assets of the Scheme at 31 March		**10,380.1**	10,693.2

The notes on pages 30 to 45 are an integral part of these Financial Statements.

Statement of Net Assets available for benefits as at 31 March 2022

	Note	Total 2022 £m	Total 2021 £m
Investment assets:	8		
Bonds		**4,374.4**	4,910.8
Pooled investment vehicles	9	**3,081.1**	2,842.0
Derivatives	10	**1,746.7**	1,938.6
Special purpose vehicle	12	**516.9**	537.1
AVC investments	13	**6.7**	6.6
Bulk annuity policies	11	**3,005.4**	3,331.6
Cash deposits		**150.7**	120.7
Other investment balances	14	**43.1**	79.1
		12,925.0	13,766.5
Investment liabilities:			
Derivatives	10	**(1,407.8)**	(1,702.7)
Other investment liabilities	14	**(4.5)**	(3.2)
Amounts due under repurchase agreements	15	**(1,182.7)**	(1,423.5)
		(2,595.0)	(3,129.4)
Total net investments	8	**10,330.0**	10,637.1
Current assets	20	**53.7**	65.2
Current liabilities	21	**(3.6)**	(9.1)
Net assets of the Scheme at 31 March		**10,380.1**	10,693.2

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities on page 20 of the Annual Report and these Financial Statements should be read in conjunction with this report.

The notes on pages 30 to 45 are an integral part of these Financial Statements.

These Financial Statements were approved by the Trustee of the Marks and Spencer Pension Scheme on 13 July 2022.

G J Oakley

Marks and Spencer Pension Trust Limited

G Derbyshire

Marks and Spencer Pension Trust Limited

Notes to the Financial Statements

1. Basis of preparation

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council, and with guidance set out in the Statement of Recommended Practice. The Financial Statements are prepared in accordance with the amendments to FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial Review 2017 incremental Improvements and Clarification issued December 2017, and the SORP (revised 2018).

The Financial Statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs for at least the next twelve months from the approval of these financial statements. In reaching this conclusion, the Trustee has considered any severe but plausible downside scenarios on investments, future income and capital growth, portfolio liquidity, and cashflow requirements. In addition, the Trustee has considered the ability of the Sponsor to meet the ongoing expenses of the Scheme; the Scheme currently does not require any deficit funding contributions from the employer. In making this assessment, the Trustee has noted that the sponsoring employer's Financial Statements for the year ended 31 March 2022 were prepared on a going concern basis with no material uncertainty related to going concern. This assessment, together with income and capital growth from its assets, gives the Trustee confidence to prepare the Financial Statements on a going concern basis.

2. Identification of the financial statements

The Scheme is established as a Trust under English Law. The registered address of the Scheme is Marks and Spencer Pension Trust Limited, Waterside House, 35 North Wharf Road, London, W2 1NW.

3. Accounting policies

The principal accounting policies of the Scheme are as follows:

(a) Investments

Investments are included at fair value as explained below:

(i) Quoted securities in active markets are stated at the bid price or the last traded price, depending on the convention of the exchange on which they are quoted, at the reporting date.

(ii) Bonds are stated at their clean prices. Accrued income is excluded from the market value of the bonds and is included in other investment balances.

(iii) Unitised Pooled Investment Vehicles are stated at the bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value, determined in accordance with fair value principles, provided by the pooled investment manager.

Notes to the Financial Statements

3. Accounting policies (continued)

(a) Investments (continued)

(iv) The Scheme's interest in the Special Purpose Vehicle (SPV) is valued at the year-end date as the net present value of the future expected distributions. Distributions from the SPV are recognised as sales proceeds. Movements in the net present value of future distributions are recognised as a change in market value.

(v) Bulk annuity policies purchased in the name of the Trustee, which fully provide the pension benefits for certain members, are included in these Financial Statements at the amount of the related obligation. Annuity valuations are calculated by the Bulk Annuity Policy Providers using actuarial techniques and are reported at the amount that would be recoverable if the Providers triggered a contract termination, or a best estimate liability (BEL) calculated using an actuarial assessment of future interest rate, inflation and other asset returns prevailing under market conditions at the valuation date. Investments in bulk annuity policies are reported as purchases. Receipts from bulk annuity policies are reported as sales proceeds. Any other differences between the opening and closing values of the policies are recognised as a change in market value.

(vi) Exchange traded derivatives are valued using market quoted prices. Over the counter (OTC) derivatives are valued as follows:

Swaps: at the present value of future cash flows arising from the swap, determined using discounted cash flow models and market data at the reporting date.

Forward foreign exchange contracts: at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

(vii) Investments lent under stock lending arrangements are recognised as assets of the Scheme.

(viii) Securities deposited as collateral with counterparties in respect of out of the money derivative positions have been included in the Statement of Net Assets and disclosed according to the securities' asset classification. This reflects the Scheme's continuing economic interest in those securities.

Collateral deposited with the Scheme in respect of in the money derivative positions has not been included in the Statement of Net Assets.

(ix) Repurchase agreements are accounted for as follows:

(i) Repurchase agreements - Securities are sold by the Scheme in repurchase agreements. The securities that have been sold are included in the Financial Statements according to the securities' asset classification at their year-end market values. The amount payable by the Scheme to the buyer of the securities is included in the Financial Statements under other investment balances at cost, which combined with accrued interest, approximates market value.

(ii) Reverse repurchase agreements - Securities are purchased by the Scheme in reverse repurchase agreements. The securities that have been purchased are excluded from the Financial Statements. The amount due to the Scheme from the seller of the securities is included in the Financial Statements under other investment balances at cost, which combined with accrued interest, approximates market value.

Notes to the Financial Statements

3. Accounting policies (continued)

(b) Investment income

(i) Dividends from quoted equities are accounted for when the security is declared ex-dividend.

(ii) Interest on bonds, cash and repurchase agreements is accrued on a daily basis.

(iii) Coupon related receipts or payments from swap contracts are accounted for on a cash basis and reported within investment income.

(iv) Investment income includes recoverable withholding taxes. Irrecoverable withholding taxes are reported separately as a tax charge.

(v) Where investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested without the purchase of additional units, this will be included in 'Change in Market Value' within the Fund Account.

(c) Foreign currencies

The Scheme's functional and presentational currency is pounds sterling. Balances denominated in foreign currencies are translated at the closing exchange rates at the year-end date. Transactions denominated in foreign currencies are translated at the exchange rate on the date of the transaction.

Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

(d) Contributions

Other Employer contributions comprise of reimbursements in respect of regulatory levies and administrative expenses and are accounted for in the period that they fall due.

(e) Payments to members

(i) Pensions in payment are accounted for in the period to which they relate.

(ii) Benefits payable are accounted for on the later of the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken, and the date of retiring or leaving. If there is no member choice, on the date of retirement or leaving or notification of death.

(iii) individual transfers out are accounted for when the member liability is discharged which is normally when the transfer amount is paid.

(iv) Where the Trustee is required to settle tax liabilities on behalf of a member (such as when lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Scheme, this is shown separately within benefits.

(f) Administrative and investment management expenses

Expenses are accounted for on an accruals basis.

(g) Change in market value of investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

(h) Taxation

The Scheme is registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax in the United Kingdom.

Overseas investment income may be subject to withholding taxes and the tax charge in the Fund Account represents the amount of such taxes that are not recoverable from overseas tax authorities.

Notes to the Financial Statements

4. Contributions

	2022 £m	2021 £m
Employer contributions		
Other	**4.4**	4.3

Other employer contributions comprise of reimbursements in respect of regulatory levies and administrative expenses.

5. Benefits paid or payable

	2022 £m	2021 £m
Pensions	243.5	239.9
Commutations of pensions and lump sum retirement benefits	42.9	46.8
Lump sum death benefits	0.9	0.3
Taxation where lifetime or annual allowance exceeded	0.3	0.5
	287.6	**287.5**

6. Payments to and on account of leavers

	2022 £m	2021 £m
Individual transfers out to other schemes	**65.9**	**87.1**

7. Investment income

	2022 £m	2021 £m
Income from bonds	84.3	60.5
Income from pooled investment vehicles	68.8	71.0
Net (interest)/income from swap contracts	(75.8)	72.8
Interest on cash deposits	19.4	26.4
Net other income	(0.6)	(0.2)
Net interest on repurchase agreements	(2.9)	(2.7)
	93.2	227.8

Investment income which is rolled up within the valuation of a pooled investment vehicle is reported as a change in market value of the pooled investment vehicle.

Notes to the Financial Statements

8. Reconciliation of investments

	Value at 1 April 2021 £m	Purchases at cost & derivative payments £m	Sales proceeds & derivative receipts £m	Change in market value £m	Value at 31 March 2022 £m
Bonds	4,910.8	1,479.8	(1,762.1)	(254.1)	4,374.4
Pooled investment vehicles	2,842.0	915.6	(890.9)	214.4	3,081.1
Derivatives	235.9	63.2	(98.9)	138.7	338.9
Special Purpose Vehicle (SPV)	537.1	-	(36.4)	16.2	516.9
AVC investments	6.6	-	(0.4)	0.5	6.7
Bulk annuity policies	3,331.6	-	(162.9)	(163.3)	3,005.4
	11,864.0	2,458.6	(2,951.6)	(47.6)	11,323.4
Cash deposits	120.7			1.5	150.7
Other investment balances	75.9			-	38.6
Repurchase agreements	(1,423.5)			(0.5)	(1,182.7)
	10,637.1			(46.6)	10,330.0

Transaction costs

Transaction costs of £nil (2021: less than £0.1 million) are included in the purchases and sales figures. Indirect transaction costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

9. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2022 £m	2021 £m
Equities	**599.2**	562.0
Global property	**305.6**	274.2
Hedge funds	**128.0**	75.7
Private equity and infrastructure	**222.8**	225.5
Other growth assets	**447.8**	334.6
Bonds and low risk credit-based assets	**163.3**	215.2
Secure income alternatives	**1,214.4**	1,154.8
	3,081.1	2,842.0

Other growth assets include investments in asset backed securities, company financing loans, distressed credit, healthcare property, life/health related instruments, diversified derivatives and reinsurance. Low risk credit-based assets include investments in UK corporate debt, collateralised loan obligations, emerging market debt and global sovereign bonds.

Notes to the Financial Statements

9. Pooled investment vehicles (continued)

Contractual commitments to further investments in pooled investment vehicles at the year-end were as follows:

	2022 **£m**	2021 £m
Private equity and infrastructure	**36.0**	37.0
Other growth assets	**72.0**	12.6
Secure income alternatives	**49.4**	116.3
	157.4	165.9

10. Derivatives

(a) Objectives and policies

The Trustee has authorised the use of derivatives by certain of its investment managers. The main objectives for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

Swaps – The Trustee has entered into interest rate and total return swaps to hedge sensitivities to interest rate risks in the future pension liabilities. Inflation swaps have been entered into to hedge inflation risks in the future pension liabilities. In addition, the Trustee holds US Dollar / Pound Sterling cross currency swaps, which were received through a lump sum contribution made by the Principal Employer in May 2010.

Futures – So as to avoid being "out of the market", the Trustee may purchase index-based futures contracts which have an underlying economic value broadly equivalent to cash balances held elsewhere in the portfolio.

Futures are also transacted for efficient portfolio management reasons, for example to increase/decrease exposure to particular investments or asset classes where the futures trade is more efficient than transacting in the underlying cash markets.

Forward foreign exchange – in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

(b) Derivative positions at the year-end

	2022		2021	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Swaps	**1,745.8**	**(1,375.5)**	1,930.2	(1,696.7)
Futures	**0.2**	**(0.4)**	-	(0.4)
Forward FX contracts	**0.7**	**(31.9)**	8.4	(5.6)
	1,746.7	**(1,407.8)**	1,938.6	(1,702.7)

Notes to the Financial Statements

10. Derivatives (continued)

Derivative positions at the year-end

A summary of the Scheme's outstanding derivative contracts at the year-end aggregated by key characteristics is set out below:

i) Swaps

The Scheme had entered into swap contracts at the year-end as follows:

Nature	Expiration	Nominal amount	Asset value at year-end	Liability value at year-end
		£m	£m	£m
Interest rate	0-20 years	2,961.3	588.1	(551.8)
	20-40 years	2,101.7	699.1	(280.7)
	40-60 years	160.6	39.0	(21.0)
Inflation	0-20 years	3,736.6	207.6	(155.2)
	20-40 years	1,143.2	51.1	(185.5)
	40-60 years	65.7	34.9	(13.2)
Total return	<2 years	1,572.6	7.2	(126.2)
USD/GBP cross currency	June 2025	6.6	-	(0.2)
USD/GBP cross currency	June 2030	8.1	-	(0.4)
EUR/GBP cross currency	June 2030	3.5	0.1	-
USD/GBP cross currency	June 2035	3.7	-	(0.2)
EUR/GBP cross currency	June 2035	5.3	0.3	-
USD/GBP cross currency	December 2037	199.7	-	(34.9)
GBP/USD cross currency	December 2037	227.9	117.3	-
USD/GBP cross currency	June 2040	5.9	-	(0.5)
EUR/GBP cross currency	June 2040	8.0	0.5	-
USD/GBP cross currency	June 2045	16.1	-	(1.7)
USD/GBP cross currency	June 2050	30.0	-	(4.0)
EUR/GBP cross currency	June 2050	11.6	0.6	-
Total for 2022			**1,745.8**	**(1,375.5)**
Total for 2021			1,930.2	(1,696.7)

All swaps are Over the Counter as at 31 March 2022.

Notes to the Financial Statements

10. Derivatives (continued)

(b) Derivative positions at the year-end (continued)

ii) Futures

The Scheme had exchange traded index futures outstanding at the year-end as follows:

Nature	Expiration	Nominal amount	Asset value at year-end	Liability value at year-end
		£m	£m	£m
UK bonds	June 2022	(6.3)	0.2	-
US bonds	June 2022	8.4	-	(0.4)
Total for 2022			**0.2**	**(0.4)**
Total for 2021			-	(0.4)

iii) Forward Foreign Exchange (FX) contracts

The Scheme had open over the counter forward FX contracts at the year-end as follows:

Number of contracts	Currency bought	Currency sold	Sterling equivalent of currency bought	Asset value at year-end	Liability value at year-end
			£m	£m	£m
15	Sterling	Euro	159.9	-	(1.1)
13	Sterling	JPY	24.5	0.4	-
17	Sterling	USD	1,047.6	-	(29.3)
6	EUR	Sterling	7.9	0.1	-
6	USD	GBP	14.8	0.2	-
12	Sterling	Various	29.8	-	(1.5)
3	Various	Sterling	1.8	-	-
Total for 2022				**0.7**	**(31.9)**
Total for 2021				8.4	(5.6)

All open forward FX contracts had a contractual settlement date falling on or before 10 June 2022.

Notes to the Financial Statements

10. Derivatives (continued)

(c) Collateral

Collateral is exchanged with counterparties to reduce the credit risk of derivative contract exposures. The Scheme had collateral positions with counterparties at the year-end as follows in relation to swaps:

	2022		2021	
	Pledged	**Received**	Pledged	Received
	£m	**£m**	£m	£m
Cash deposits	-	286.2	0.1	329.1
Bonds	270.6	134.5	320.3	135.2
	270.6	**420.7**	320.4	464.3

Collateral pledged to counterparties remains an asset of the Scheme and is reported within the Scheme's net assets. Collateral received from counterparties does not form part of the Scheme's net assets.

11. Bulk annuity policies

	2022 **£m**	2021 £m
Aviva (Mallard 1)	**796.4**	897.7
Phoenix Life (Mallard 1)	**397.5**	434.8
PIC (Mallard 2)	**797.7**	881.0
Phoenix Life (Mallard 2)	**394.7**	429.3
Aviva (Mallard 3)	**331.3**	374.1
Phoenix Life (Mallard 3)	**287.8**	314.7
	3,005.4	3,331.6

12. Special Purpose Vehicle (SPV)

The SPV is the Scheme's interest in a Scottish Limited Partnership which owns properties that have been leased back to the Principal Employer at market rates. The Scheme is entitled to receive an annual distribution from the profits of the Partnership earned from rental income, which was £36.4 million in the current financial year (2021: £55.1 million). The Scheme's interest in the SPV is transferrable to another party only in very limited circumstances.

The fair value of the SPV represents the present value of distributions due to the Scheme over a period up to 2031.

13. Additional Voluntary Contributions (AVC) investments

The Trustee holds £6.7 million (2021: £6.6 million) of assets with Legal & General to secure additional benefits on a money purchase basis for those members who paid AVCs before the arrangement was closed to new monies. These assets are held separately from the main defined benefit fund. Members participating in the AVC arrangement each receive an annual statement confirming the amounts held in their account and the movements in the year.

14. Other investment balances

	2022 £m	2021 £m
Accrued income and other receivables	**43.1**	79.1
Other payables	**(4.5)**	(3.2)

15. Repurchase agreements

	2022 £m	2021 £m
Amounts receivable under reverse repurchase agreements	**-**	45.3
Amounts due under repurchase agreements	**(1,182.7)**	(1,468.8)
	(1,182.7)	(1,423.5)

At the year-end, £1,114.8 million of bonds reported in Scheme assets are held by counterparties under repurchase agreements (2021: £1,292.5 m).

16. Fair value determination

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1 — The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the assessment date.

Level 2 — Inputs other than quoted prices included within Level 1 which are observable (i.e. developed) for the asset or liability, either directly or indirectly.

Level 3 — Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Scheme's investment assets and liabilities fall within the above hierarchy levels as follows:

As at 31 March 2022	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Bonds	-	4,361.3	13.1	**4,374.4**
Pooled investment vehicles	-	997.8	2,083.3	**3,081.1**
Derivatives	(0.2)	233.8	105.3	**338.9**
Special Purpose Vehicle	-	-	516.9	**516.9**
AVC investments	-	6.7	-	**6.7**
Bulk annuity policies	-	-	3,005.4	**3,005.4**
Cash deposits	150.7	-	-	**150.7**
Other investment balances	-	38.6	-	**38.6**
Repurchase and reverse repurchase agreements	-	(1,182.7)	-	**(1,182.7)**
	150.5	**4,455.5**	**5,724.0**	**10,330.0**

Notes to the Financial Statements

16. Fair value determination (continued)

As at 31 March 2021	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Bonds	77.9	4,832.5	0.4	4,910.8
Pooled investment vehicles	-	953.9	1,888.1	2,842.0
Derivatives	(0.4)	243.5	(7.2)	235.9
Special Purpose Vehicle	-	-	537.1	537.1
AVC investments	-	6.6	-	6.6
Bulk annuity policies	-	-	3,331.6	3,331.6
Cash deposits	118.8	-	1.9	120.7
Other investment balances	-	75.9	-	75.9
Repurchase and reverse repurchase agreements	-	(1,423.5)	-	(1,423.5)
	196.3	4,688.9	5,751.9	10,637.1

17. Investment risk disclosures

Implementation of the investment strategy, which is described in the Trustee's Report, exposes the Scheme to investment risks including credit risk and market risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Market risk comprises currency risk, interest rate risk and other price risk.

- **Currency risk** is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk** is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk** is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

This note considers how the Scheme manages investment risks, although it does not include AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

The Scheme's Statement of Investment Principles sets out the overall investment objectives. Risk limits which are commensurate with this Statement, and the Scheme's investment strategy, are implemented through the terms in the mandates of the external investment managers that have responsibility for investing the Scheme's assets. The Investment Committee and Investment Management Committee regularly monitor the investment portfolio and the investment managers.

Notes to the Financial Statements

17. Investment risk disclosures (continued)

Credit risk

The Scheme is subject to credit risk on the following investments:-

(a) Directly held bonds

Credit risk is mitigated by investing in developed market government bonds where the credit risk is minimal and other corporate or emerging market government bonds which are investment grade credit rated. The Scheme had £6.3 million (2021: £7.1 million) of directly held sub-investment grade bonds at the year-end, which represented 0.001% (2021: 0.001%) of the Scheme's directly held bond investments.

(b) Bulk annuity policies

Credit risk in relation to the annuity policies is mitigated by selecting regulated insurers with a good credit analysis backed up by protections provided by the regulatory regime under the Prudential Regulatory Authority (which regulates UK life insurers) and the Financial Services Compensation Scheme.

(c) Other Over The Counter (OTC) Derivatives

OTC derivatives includes forward foreign currency contracts and most of the Scheme's swaps and options. OTC derivatives are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of counterparty failure. For swaps and options this risk is reduced by counterparty diversification and having in place agreements to receive collateral from counterparties, further details of which are reported within Note 10(c). Consideration is also given to the credit rating of the counterparties, which is at least investment grade for the OTC derivatives. If a counterparty is downgraded to below a minimum specified credit rating, open positions with that counterparty may be closed, further trading suspended and/or additional collateral requested.

(d) Exchange Traded Derivatives

Exchange traded derivatives includes futures contracts and some of the Scheme's swaps and options. Fulfilment of exchange traded derivative contracts is backed by regulated exchanges and there is no exposure to the risk of counterparty failure. Collateral is required to be posted to the exchange, usually in the form of margin payments, further details of which are included within Note 10(c).

(e) Cash

Cash is invested in liquidity funds or held in accounts with financial institutions that were at least investment grade credit rated at the year-end.

(f) Repurchase agreements

Credit risk on repurchase agreements is mitigated through collateral arrangements as disclosed in Note 15.

Notes to the Financial Statements

17. Investment risk disclosures (continued)

Credit risk (continued)

(g) Pooled investment vehicles

Pooled investment arrangements used by the Scheme comprise:

	2022	2021
	£m	£m
Unit linked investment contracts	**149.1**	303.4
Unit trusts	**620.9**	576.7
Investment company shares	**1,160.2**	1,003.7
Limited liability partnership interests	**1,150.9**	958.2
	3,081.1	2,842.0

Pooled investment vehicles are subject to direct and indirect credit risks:

(i) **Direct credit risks:** These are mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Due diligence checks are carried out prior to the appointment of new pooled investment managers and on an ongoing basis there is monitoring of any changes to the managers' operating environments. The pooled investment vehicles are not rated by any credit agencies.

(ii) **Indirect credit risks:** Indirect credit risk arises in relation to underlying investments in pooled funds invested in secure income alternatives, bonds and low risk credit-based assets and in some hedge funds and other growth assets. Risks are mitigated by including credit exposure limits in the contractual agreements with the pooled fund managers wherever relevant and appropriate to the range of investments that they manage.

(h) Special Purpose Vehicle (SPV)

Further details on the SPV are disclosed in Note 12. Collateral in the form of freehold property currently in use by the Principal Employer and related companies are available to the Scheme in the event that distributions due from the SPV are not received by the due dates.

Notes to the Financial Statements

17. Investment risk disclosures (continued)

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Scheme limits overseas currency exposure through a currency overlay programme managed by BlackRock.

As at the year-end, the currency overlay programme hedged foreign currency exposures as follows:

	2022	2021
	£m	£m
US Dollar	**992.1**	686.8
Euros	**64.1**	55.6
Japanese Yen	**23.2**	26.9
Hong Kong Dollar	**15.7**	12.1
Australian Dollar	**14.7**	18.2
	1,109.8	799.6

In addition to the currency overlay programme, Scheme investment managers may have discretion to manage the currency risk of the portfolios that they manage in accordance with the terms of their investment mandates.

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in cash, the SPV, fixed interest bonds and derivatives, either as segregated investments or through pooled vehicles. There is also an exposure to inflation rate risk through investments in, or pooled vehicle exposures to, inflation-linked bonds and swaps.

The Scheme invests in 'matching assets' that hedge against the impact that interest rate and inflation movements have on the Scheme's long-term liabilities. The matching asset portfolio comprises UK government bonds, swaps, cash and repurchase agreements. If interest rates fall and inflation increases, the value of the matching assets will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate and an increase in the cost of future pension increases. Similarly, if interest rates rise and inflation falls, the matching assets will fall in value, as will the actuarial liabilities because of an increase in the discount rate and a reduction in the cost of future pension increases.

At the year-end, the matching assets represented 25% of the total investment portfolio (2021: 25%). Some additional protection against the impact on liabilities of interest rate and inflation changes is provided by secure income alternatives and other credit-based assets, which at the year-end represented 29% of the investment portfolio (2021: 30%). There is no exposure to interest rate or inflation changes on the bulk annuity policies, which at the year-end represented 29% of the investment portfolio (2021: 31%). The remaining 17% (2021: 14%) of the total investment portfolio is mostly allocated to growth assets which are not held specifically to mitigate interest and inflation risks.

Notes to the Financial Statements

17. Investment risk disclosures (continued)

Other price risk

Other price risk arises principally in relation to the Scheme's growth asset portfolio which includes directly held equities and pooled vehicle investments in equities, global property, hedge funds, private equity, infrastructure and other growth assets. At the year-end the Scheme had a target allocation of 15% to investments in growth assets (2021: 15%) and an actual allocation of 17% (2021: 14%).

The Scheme manages other price risk exposure through holding a diverse portfolio of investments across various markets.

18. Self investment

As at 31 March 2022 the Scheme held an indirect interest in the ordinary shares of Marks and Spencer Group plc through its pooled equity fund investments managed by Legal & General. Their combined holdings totalled less than 0.1% (2021: less than 0.1%) of the net assets of the Scheme.

19. Concentration of Investments

The investments (other than UK Government Securities) at the year-end which are more than 5% of the total value of the net assets of the Scheme comprise of:

	Market value at 31 March 2022 (£m)	Percentage of net assets %	Market value at 31 March 2021 (£m)	Percentage of net assets %
SPV	516.9	5	537.1	5
Aviva bulk annuity	796.4	8	897.7	8
PIC bulk annuity	797.7	8	881.0	8

20. Current assets

	2022	2021
	£m	£m
Contributions due from the employer	0.3	0.5
Cash balances	35.0	46.5
Pensions and retirement lump sums paid in advance	18.4	18.1
Other current assets	-	0.1
	53.7	65.2

The contributions due as at 31 March 2022 were received after the year end in accordance with the due date set out in the Schedule of Contributions.

Notes to the Financial Statements

21. Current liabilities

	2022	2021
	£m	£m
Amounts due to the employer	0.8	1.4
Other current liabilities	2.8	7.7
	3.6	9.1

22. Related party transactions

The Scheme bears all the costs of administration and has been recharged £8.7 million (2021: £7.4 million) of costs by the Sponsoring Employer in relation to the day to day management of the Scheme. These are included within administrative and investment management expenses.

Administration costs and investment manager expenses payable to the Sponsoring Employer at the year-end are disclosed in Note 21.

The Scheme has an interest in an SPV which leases properties to the Sponsoring Employer and related parties. Further details are included in Note 12.

During the year, Trustee directors were entitled to fees of £325,898 (2021: £291,373) for their services to the Scheme paid for by the Sponsoring Employer.

Pensions paid in respect of Trustee directors who are members of the Scheme have been made in accordance with the Trust Deed and Rules.

23. Contingent liabilities

As explained on page 9 of the Trustee's Report, on 26 October 2018 and 20 November 2020, the High Court handed down a judgement involving the Lloyds Bank Group's Defined Benefit Schemes. The judgement concluded the Schemes should be amended to equalise pension benefits for men and women in relation to Guaranteed Minimum Pension ("GMP") benefits. The issues determined by the judgment arise in relation to many other Defined Benefit Schemes. The Trustee is aware that the issue will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps. Under the ruling, Schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest, the Trustee does not expect these to be material to the Financial Statements and therefore have not included a liability in respect of these matters in these Financial Statements. They will be accounted for in the year they are determined.

Appendix A – Implementation Statement forming part of the Trustee’s report

Table of Contents

Appendix A – Implementation Statement

Section 1: Introduction

This document is the Annual Implementation Statement ("the statement") prepared by the Trustee of the Marks & Spencer Pension Scheme ("the Scheme") covering the Scheme year ("the year") from 1 April 2021 to 31 March 2022.

The purpose of this statement is to set out:

- Details of how and the extent to which, in the opinion of the Trustee, the Trustee's policies on engagement and voting as set out in the Statement of Investment Principles (the "SIP") have been adhered to during the year; and
- A description of voting behaviour (including the most significant votes made on behalf of the Trustee) and any use of proxy voting services during the year.

The SIP is a document which outlines the Trustee's policies with respect to various aspects related to investing and managing the Scheme's assets, including but not limited to investment managers, portfolio construction and risks.

Over the Scheme Year, the SIP was revised and updated to reflect changes in the Scheme's governance structure, which included the establishment of the Environmental, Social and Governance ("ESG") Committee. The "Responsible Investing" Section of the SIP was also amended to reflect the ESG Committee's role and beliefs. However, due to the timing of the updates, a new SIP was not formally agreed and implemented during the Scheme Year. Due to this, the SIP referred to throughout this statement is dated September 2020, however, it should be noted that an updated version of the Scheme's SIP was published shortly after the Scheme Year end (dated March 2022).

Unless otherwise stated, this statement will refer to wording within the SIP dated September 2020, a copy of which can be found on the Scheme's website.

Section 2: How the Trustee has adhered to policies related to voting and engagement

As set out in the Trustee's ESG Beliefs, engagement and voting are both thought to be highly influential activities and the Trustee recognises that they can lead to changing behaviour of companies and ultimately improving investment performance, as well as having a positive impact on the environment and society. The primary goal of the Trustee is to act in the best financial interests of its members, and the investment strategy is formulated to support its primary objective of paying member benefits as and when they fall due. Contributing towards this objective, the Trustee works in close partnerships with the Scheme's investment managers, monitoring stewardship processes closely, with the advice and expertise of third parties.

The Scheme makes use of both pooled and segregated vehicles. Investing in pooled funds allows the Scheme to benefit from economies of scale and potentially lower fees. However, this means that the investment or engagement decisions regarding the companies invested in by each fund are made at the discretion of the investment manager of the pooled fund. The Trustee is comfortable with this approach, given that ESG factors form a significant part of manager selection exercises and ongoing due dilligence, particularly when considering long-term investments. Across both pooled and segregated mandates, whilst the Trustee does not direct voting or engagement activities themselves, they seek to exert their influence as an asset owner through engaging with the managers where concerns are highlighted through the various monitoring processes. The Trustee requires the investment managers to develop and maintain appropriate voting and engagement policies, both as part of the initial selection process and ongoing where applicable.

The Trustee's policies relevant to voting and engagement as stated in the SIP are as follows:

- 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.

- 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 and managers' engagement activities. 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.

- 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, including credit and real assets. Because these assets are relatively illiquid, the Trustee is very focussed on the sustainability of these and other longer-term, illiquid 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 a significant influence on the future success of companies, their ability to service debt and the value of their assets. Integration of ESG factors is fundamental to the design and implementation of the investment strategy of the Scheme.

- In appointing investment managers, the Trustee considers in detail their experience and capabilities and in managing ESG factors and sustainability in the securities or assets in which they invest, and this assessment forms a part of the regular on-going monitoring of the investment managers.

- 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 monitors the stewardship practices of its managers to understand how they exercise their duties with regard to ownership rights (incuding voting rights) on the Trustee's behalf. The Trustee seeks the advice of expert third parties in such matters.

- The Trustee is a signatory to the United Nations Principles of Responsible Investment and has produced a policy on voting and engagement which is shared with the Scheme's appointed equity investment managers.

Appendix A – Implementation Statement

The Trustee has been involved in extensive activities over the course of the year to 31 March 2022 in order to meet its engagement and voting policies, and, more widely, the incorporation of responsible investment factors in decision-making. These activities included (but are not limited to) the following:

- The Trustee and its committees monitored the performance of the Scheme's investment managers (and the Scheme as a whole) throughout the Scheme Year. As part of this the Scheme's custodian provided quarterly monitoring which includes quantitative performance data, reviewed at quarterly meetings with the Investment Committee, and further considered by the Trustee Executive Team.

- In addition, as part of ongoing responsible investment monitoring, the Scheme's investment adviser reviewed the investment managers' approach to engagement and voting on a qualitative basis. This incorporated managers' proxy vote decision-making and execution process (where applicable), including disclosure of policy and results, and managers' processes for proactive corporate engagement (where applicable), including disclosure of engagement activity.

- In August 2021, the Trustee establised an ESG Committee (ESGC) which held on average monthly meetings before Scheme Year end. The Committee is responsible for exploring the opportunities and risks within responsible investment (including voting and engagement), helps to meet evolving regulatory requirements and generally accelerates the Scheme's progress to the forefront of good practice in responsible investment.

- A key activity, undertaken by the ESG Committee and discussed with the wider Trustee, involved producing a set of ESG beliefs. These beliefs were integrated into the Trustee's investment beliefs. The Trustee relies on their advisers to take into account these beliefs in the advice that they provide, regardless of whether these beliefs align with their own. These beliefs reflect the Trustee's collective responsibility to deliver member benefit security and will be reviewed regularly as part of the ongoing focus on responsible investment.

- One of the Trustee's ESG beliefs states that "the Trustee believes in promoting the proactive management of ESG risks amongst the companies in which the Scheme invests, and in using engagement to drive improved medium and long-term performance. Engagement and voting are influential and can be effective in changing behaviour and improving investment performance as well as having a positive impact on the environment/society".

- Due to the Trustee's consideration that ESG factors are financially material, the Trustee also set a clear mission statement over the Scheme Year, stating "The Scheme should be managed sustainably to create long-term value, provide security to members, and contribute to better outcomes for everybody". As part of ongoing reviews, the Trustee ensures that this mission statement aligns closely with the actions and decisions carried out by its investment managers and advisers.

- As part of the formal recommendations by the Task Force on Climate Related Disclosures (TCFD), the Trustee began preparing its first Climate Change Report. Having set an ambitious net zero target of 2040 (with a 50% reduction in emissions by 2030), the report highlights that engagement will be a critical element in achieving this, noting that the Trustee will aim to reduce emissions through changing the behaviour of existing companies. This will involve engaging with managers of key mandates and expecting managers to do the same with underlying holdings, including the Scheme's buy-in providers. Third party stewardship and engagement services may be used where appropriate, whilst the Scheme will also look to lend its voice to industry-wide collaborative initiatives.

- For example, within the Scheme's investment portfolio, the Trustee has continued to phase equity exposure into Legal & General Investment Management's Future World index funds, which tilt exposure towards those companies with strong ESG credentials, rewarding those companies who are leaders in this area and responsive to engagement.

- The Trustee contacted all of the Scheme's managers with a series of questions as suggested by the government- and industry-backed Pensions Climate Risk Industry Group (PCRIG). This was aimed at better understanding the investment managers' engagement with the Trustee's investment beliefs, stewardship and investment policies. The responses from this process were considered by the ESGC when monitoring the activities of individual managers with respect to responsible investment.

- Over the Scheme Year, the Trustee was a signatory of the United Nations Principles for Responsible Investment, whilst looking to adhere to the principles as set out in the updated FRC UK Stewardship Code.

More widely, in line with the Trustee's fiduciary duty to meet member benefit payments as they fall due, the Trustee considers that the balance of investments held and the approach to managing risk is in the best interests of members in order to mitigate downside risk to the funding position of the Scheme whilst helping the Scheme to achieve its ultimate objectives over an appropriate time horizon.

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. Over the Scheme Year, no member views relating to investments were sought, and none were received. The Trustee, however, is working to provide more regular updates on the topic of Responsible Investment to members. The Trustee also recognises that, with ever increasing focus on Responsible Investment, a number of non-financial considerations may materialise into financial considerations which may affect the Scheme and its underlying companies in meeting financial obligations in future.

Equity manager (LGIM) voting/engagement case studies:

As highlighted above, the Trustee considers engagement as a key aspect of ongoing Scheme management, and an important responsibility of both the Trustee and its investment managers, expected to provide long-term value to the Scheme. The Trustee expects the Scheme's investment managers to act as responsible stewards of capital as applicable to their mandates, through engagement undertaken.

As part of the ongoing monitoring and reviewing of the Scheme's investment managers, the Trustee has explored the approach to voting and engagement carried out across the portfolio, including by the Scheme's equity manager, LGIM. Key case studies related to LGIM's voting and engagement activities are highlighted below. The Trustee considered these areas as significant as they closely align with the Trustee's investment beliefs (including ESG beliefs), policies, and mission statement in relation to responsible investment.

Climate Impact Pledge

- In October 2021, LGIM launched the fifth engagement cycle of the Climate Impact Pledge, their flagship climate engagement programme. The firm analyse and directly engage with around 60 companies in 15 climate-critical sectors on their strategic approach to climate change, and to what extent they are aligning their businesses with the constraints and opportunities of a net-zero transition.

- The programme targets large and influential companies who are not yet meeting 'best practice' expectations. These are companies who could have a significant positive trickle-down effect across their industries and value chains by setting and pursuing ambitious net-zero targets.

- 75% of companies have responded to engagement requests and the firm has seen financial institutions improve their emissions reporting practices. In 2022, LGIM plan to continue to press companies to establish robust decarbonisation strategies, with granular interim roadmaps out to 2050, to accompany their public announcements.

Corporate engagement with investee companies around ethnic diversity on boards

- In August 2020 LGIM announced their minimum expectations for ethnic diversity on corporate boards. They did so because of a belief that more diverse views create better boards, and the manager began their engagement campaign by focusing on the largest UK- and US-based companies. Of the 79 companies initially engaged, 51 have added at least one ethnically diverse director since September 2020 (with a total of 54 individual ethnically diverse directors added). 65% of these new directors hold no other public board positions (20% hold one other board seat, and 15% hold two or more), representing a very encouraging expansion of the universe of board talent.

- The campaign also spurred an improvement in the data on this issue. 15 of the 79 companies engaged were incorrectly listed by third-party providers as lacking ethnic diversity on their boards, and the manager subsequently updated their records. While the manager recognises there is still evidently much to be done, they are pleased with the progress shown. The manager's view is that improving diversity in all its forms is financially material; and they believe more diverse organisations make better strategic decisions, show superior growth and innovation, and exhibit lower risk.

- Based on current data, in the 2022 proxy season the manager expects to vote against seven companies (two UK and five US) because of their lack of board ethnic diversity. The manager has already informed these companies of their voting intentions, and in the coming months will publicly pre-announce voting intentions for these companies, amplifying the message across the whole market. Beyond that, the manager plans to extend their expectations to other regions and to smaller companies.

Modern Slavery

- LGIM's Investment Stewardship team has been engaging on the implementation of the Modern Slavery Act since 2015. They, and the Trustee, believe it is fundamentally important that companies comply with all provisions of the UK Modern Slavery Act 2015 to demonstrate a strong commitment to fighting modern slavery. The manager expects investee companies to implement processes to tackle modern slavery within their own operations and within their supply chains. They have undertaken company-specific engagement and joined industry peers in collaborations to ensure that the companies in which they invest are taking action to identify and eliminate slavery in their supply chains.
- By way of example, the manager engaged with BooHoo Group during 2020, following allegations of slavery within its supply chain, following which the company took significant steps to address the findings of modern slavery within its operations. This included improving its supply chain management, strengthening its expertise in these areas and identifying areas for future improvement.

Broader collaborations include working with investors managing a total of £3.2 trillion in assets to challenge FTSE 350 companies that had failed to meet the reporting requirements of Section 54 of the Modern Slavery Act, 2015. As part of a group of 100 investors representing over $4.2 trillion in assets under management (AUM) and driven by the Investor Alliance for Human Rights, the manager wrote to policymakers around the world calling for the introduction of new requirements to mandate companies to disclose their due diligence on human rights. The manager believes this type of regulation is (i) materially good for business, investors, and the economy; (ii) essential in creating uniformity and efficiency as an increasing number of governments are starting to introduce regulations; and (iii) a necessary component for investors to fulfil their own responsibility to respect human rights.

Election of a Director - NVIDIA

- Manager stance: Voted against
- LGIM views gender diversity as a financially material issue for clients, with implications for the assets managed on their behalf. For 10 years, they have been using their position to engage with companies on this issue. As part of efforts to influence investee companies on having greater gender balance, the manager has increased its expectations on gender diversity on the board by placing a vote against the largest 100 companies in the S&P500 and the S&P/TSX where there are less than 25% women on the board. In 2021, they expanded the scope of their vote policy to include all companies in the S&P 500 and the S&P/TSX. Their expectation is for all companies in this market to reach a minimum of 30% women on the board and at senior management level by 2023.
- Whilst 94.2% of shareholders supported the resolution, the manager will continue to engage with investee companies, publicly advocate their position on this issue and monitor company and market-level progress. The Trustee supports this approach.

Section 3: Voting information

The Scheme is invested in a diverse range of asset classes. However, this section focuses on the equity investments which have voting rights attached. Over the course of the year, the Scheme held equities in the following standalone equity funds:

- **LGIM FTSE RAFI All World 3000 Equity Index Fund (Passive):** Global equity index fund that employs an index tracking strategy, aiming to replicate the performance of its benchmark.
- **LGIM Future World Global Equity Index Fund (Passive):** Global equity index fund which includes considerations to climate change and sustainable investment factors through allocation weightings and exclusions.
- **GW&K Trilogy Emerging Market Equity Fund (Active):** Emerging market equity fund investing across all market capitalisations. *(part year only)*
- **LGIM Future World Emerging Markets Equity Index Fund:** Emerging market equity fund that employs an index tracking strategy, aiming to provide exposure to emerging equity markets while reflecting significant environmental, social and corporate governance issues. *(part year only)*

As part of the Trustee's ongoing engagement with, and monitoring of the Scheme's investment managers, the Trustee has set out the voting activities of the Scheme's equity investment managers over the Scheme Year, including detail of the managers' use of proxy voting.

The Scheme's investment managers have their own policies which determine their approach to voting, and the principles they follow when voting on investors' behalf. The Trustee is not aware of any material changes to these policies over the past 12 months.

The Trustee, via its investment adviser, has assessed the investment managers' voting policies as part of its overall assessment of the investment manager's capabilities. The Trustee has considered the policies to be appropriate, and consistent with the Trustee's own policies and objectives, therefore ultimately in the best financial interests of the members. Whilst the Trustee does not have their own formal policy on significant votes, with the increase in focus on responsible investment, and desire to be at the forefront of the industry with regards to ESG considerations, the Trustee deems key votes as those in support of the Scheme's ESG beliefs in particular. This includes votes related to responsible investment issues across "E" (including climate), "S", and "G", albeit that this does not preclude votes on other matters to be significant too.

The Trustee expects investment managers to act as responsible stewards of capital as applicable to their mandates. The Trustee considers the investment managers' experience and capabilities in relation to Environmental, Social and Governance (ESG) and stewardship both at the appointment of a new manager and on an ongoing basis through meetings with the managers. The Trustee engages with managers to improve their practices and may terminate a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the Year.

Appendix A – Implementation Statement

The Trustee believes that the voting practices demonstrated by the Scheme's equity managers are a key part of manager engagement, which may add value to the Scheme's assets over the relevant time period. All investment managers also use voting proxy advisers which aid in their decision-making when voting. Details are summarised in the table below:

Manager	Use of proxy advisor services:
LGIM	LGIM's Investment Stewardship team uses Institutional Shareholder Services' (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure LGIM's proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions. LGIM have the ability to override any vote decisions which are based on this custom voting policy if they see fit.
GW&K Trilogy	GW&K has implemented its Proxy Voting Policy to establish internal controls and procedures governing the firm's review and voting of proxies on behalf of client accounts. To assist in the process, GW&K leverages recognized third-party service providers to facilitate the firm's proxy voting process. GW&K has adopted proxy voting guidelines developed by Glass Lewis & Co., which provide recommendations on ballot items for securities held in client accounts. GW&K has also retained Broadridge Financial Solutions as proxy voting agent and to provide related proxy voting services.

The below table sets out the voting activity of the Scheme's equity investment managers, on behalf of the Trustee, over the year. The data provided is, to the best of our knowledge, complete. Whilst data provided by the managers covers the respective portfolios as a whole, in future years we will seek information in more granular detail, in particular around the categorisation of votes into different topics.

Fund	Voting activity
LGIM FTSE RAFI All World 3000 Equity Index Fund	**Number of meetings at which the manager was eligible to vote: 3,695** **Number of resolutions on which manager was eligible to vote: 43,863** **Percentage of eligible votes cast: 99.74%** **Percentage of votes with management: 80.57%** **Percentage of votes against management: 18.63%** **Percentage of votes abstained from: 0.80%** **Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 13.37%**
LGIM Future World Global Equity Index Fund	**Number of meetings at which the manager was eligible to vote: 4,465** **Number of resolutions on which manager was eligible to vote: 47,851** **Percentage of eligible votes cast: 99.86%** **Percentage of votes with management: 81.74%** **Percentage of votes against management: 17.42%** **Percentage of votes abstained from: 0.84%** **Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 10.70%**
GW&K Trilogy Emerging Market Equity Fund (Active) (data covers full year)	**Number of meetings at which the manager was eligible to vote: 119** **Number of resolutions on which manager was eligible to vote: 968** **Percentage of eligible votes cast: 100%** **Percentage of votes with management: 80%** **Percentage of votes against management: 16%** **Percentage of votes abstained from: 4%** **Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser:** 0%
LGIM Future World Emerging Markets Equity Index (data covers full year)	**Number of meetings at which the manager was eligible to vote: 2,450** **Number of resolutions on which manager was eligible to vote: 20,742** **Percentage of eligible votes cast: 99.86%** **Percentage of votes with management: 81.03%** **Percentage of votes against management: 17.39%** **Percentage of votes abstained from: 1.59%** **Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser:** 8.44%

Appendix A – Implementation Statement

The following table outlines a selection of most significant votes cast by the Scheme's investment managers on the Trustee's behalf over the year. The equity managers provided significant voting data which spanned the whole Scheme Year. For fund's which were only invested for part of the Scheme Year, significant votes were selected based on the relevant periods over which the Scheme had holdings within those funds.

GW&K Trilogy define significant votes as those made against management, though this may not always align with the Trustee's view on what defines a vote as significant. The votes determined as significant by GW&K Trilogy are not necessarily sustainability related, however, the Trustee recognises that a contradicting vote with management should often be considered as important, particularly if effective at prompting positive change at a company.

LGIM's criteria for defining significant votes is more complex and involves an assessment of each vote outcome to determine significance, and is considered across each of the largest stocks in the underlying portfolios.Whilst a large proportion of the significant votes provided by LGIM in particular are in relation to board composition, diversity and the separation of the Chair and CEO role, we have also extracted some key climate-related votes in order to align the examples provided with one of the Trustee's major priorities over the past 12 months, alongside key votes on some of the portfolio's largest holdings.

Most significant votes cast	Coverage
Company: Mitsubishi Meeting Date: 29 June 2021 Type of resolution: Shareholder Resolution: Amend Articles to Disclose Plan Outlining Company's Business Strategy to Align Investments with Goals of Paris Agreement How the manager voted: For Summary: A vote in favour of this shareholder proposal was warranted as LGIM expects companies to be taking sufficient action on the key issue of climate change. While they positively note the company's recent announcements around net-zero targets and exclusion policies, LGIM think that these commitments could be further strengthened and they believe the shareholder proposal provides a good directional push. Vote outcome: 22.7% of shareholders supported the resolution. LGIM will continue to engage on this important ESG issue.	LGIM FTSE RAFI All World 3000 Equity Index Fund, LGIM Future World Global Equity Index Fund
Company: Sysco Corporation Meeting Date: 19 November 2021 Resolution: Elect Director Edward D. Shirley How the manager voted: Against Summary: A vote against has been applied as the company has failed to meet LGIM's minimum standards on climate change mitigation. Vote outcome: LGIM considers this vote to be significant as it is applied under the Climate Impact Pledge, their flagship engagement programme targeting some of the world's largest companies on their strategic management of climate change.	LGIM FTSE RAFI All World 3000 Equity Index Fund

Company: American International Group Meeting Date: 12 May 2021 Resolution: Resolution1c Elect Director Brian Duperreault How the manager voted: Against Summary: The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. Vote outcome: 89.6% of shareholder supported the resolution. LGIM will continue to engage with the company and monitor progress. This company was also divested by LGIM across its Future World range of funds, including the Scheme's holding.	LGIM FTSE RAFI All World 3000 Equity Index Fund, LGIM Future World Global Equity Index Fund
Company: Apple Inc Meeting Date: 04 March 2022 Resolution: Resolution 9 - Report on Civil Rights Audit. How the manager voted: For Summary: A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as the manager consider these issues to be a material risk to companies. Vote outcome: The resolution received the support of 53.6% of shareholders. LGIM will continue to engage their investee companies, publicly advocate their position on the issue and monitor company and market-level progress.	LGIM FTSE RAFI All World 3000 Equity Index Fund, LGIM Future World Global Equity Index Fund
Company: Microsoft Corporation Meeting Date: 30 November 2021 Resolution: Elect Director Staya Nadella How the manager voted: Against Summary: The manager expects companies to separate the roles of Chair and CEO due to risk management and oversight. Vote outcome: The resolution encountered a significant amount of opposing votes from shareholders, with 94.7% voting against the resolution. The manager will continue to vote against combined Chairs and CEOs.	LGIM FTSE RAFI All World 3000 Equity Index Fund, LGIM Future World Global Equity Index Fund

Company: ExxonMobil Meeting Date: 26 May 2021 Resolution: 1.1 Elect Director Gregory J. Goff 1.2 Elect Director Kaisa Hietala 1.3 Elect Director Alexander A. Karsner 1.4 Elect Director Anders Runevad 1.9 Management Nominee Kenneth C Frazier 1.12 Management Nominee Darren W. Woods 4 Require Independent Board Chair How the manager voted: 1.1 to 1.4 – For, 1.9 to 1.12 – Against, 4 - For Summary: In 2019, ExxonMobil was removed from select LGIM strategies, sanctions applied under LGIM's Climate Impact Pledge engagement programme. In 2020, LGIM announced its opposition to the re-election of the company's chair/CEO as they believe the separation of roles provides a better balance of authority and responsibility. As the roles currently remain combined, LGIM therefore voted AGAINST resolution 1.9 at the 2021 AGM. LGIM acknowledges steps taken by the company around carbon disclosure and targets, but they remain concerned with the strength of Exxon's sustainability and capital-allocation strategy, as the risks of the energy transition become increasingly apparent. That is why they support activist investor Engine No. 1's proposals for board refreshment, as the experience and skills of the proposed four candidates would, in their view, make a positive contribution to board effectiveness and oversight, providing much-needed constructive challenge at a time of industry disruption. LGIM voted FOR resolutions 1.1-1.4. As in 2020, LGIM also supported a resolution requesting that the company implements an independent chair, and opposed the re-election of the chair of the Board Affairs committee for failing to respond to a meaningful level of shareholder support for such votes in prior years. Vote outcome: Resolution 1.1: 98.4% of shareholders supported the resolution. Resolution 1.2: 96.7% of shareholders supported the resolution. Resolution 1.3: 95.3% of shareholders supported the resolution. Resolution 1.4: 97.8% of shareholders supported the resolution. Resolution 1.9: 93.2% of shareholders supported the resolution. Resolution 1.12: 93.4% of shareholders supported the resolution. The manager will continue to engage with the company to monitor progress.	LGIM FTSE RAFI All World 3000 Equity Index Fund
Company: Amazon.com, Inc. Meeting Date: 26 May 2021 Resolution: Elect Director Jeffrey P. Bezos How the manager voted: Against Summary: LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 the manager has supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 LGIM are voting against all combined board chair/CEO roles. Furthermore, LGIM have published a guide for boards on the separation of the roles of chair and CEO (available on LGIM's website), and they have reinforced their position on leadership structures across their stewardship activities – e.g. via individual corporate engagements and director conferences. Vote outcome: The resolution passed even though LGIM voted against it. LGIM will continue to engage with its investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM FTSE RAFI All World 3000 Equity Index Fund, LGIM Future World Global Equity Index Fund
Company: Housing Development Finance Corporation Limited Meeting Date: 20 July 2021 Resolution: Accept Financial Statements and Statutory Reports How the manager voted: Against Summary: The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. Vote outcome: The resolution received the support of 98.9% of shareholders. LGIM will continue to engage the company and monitor company progress.	LGIM Future World Emerging Markets Equity Index

Company: Industrial & Commercial Bank of China Limited Meeting Date: 21 June 2021 Resolution: Approve Work Report of the Board of Directors How the manager voted: Against Summary: The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. Note that this company was also divested by LGIM across its Future World range of funds. Vote outcome: The resolution passed even though LGIM voted against it, receiving support from 99.8% shareholders. LGIM will continue to engage with the company and monitor progress.	LGIM Future World Emerging Markets Equity Index
Company: Emirates NBD Bank (P.J.S.C) Meeting Date: 23 February 2022 Resolution: Approve Discharge of Directors for FY 2021 How the manager voted: Against Summary: Climate Impact Pledge: A vote against is applied as the company is deemed to not meet minimum standards with regard to climate risk management. Vote outcome: LGIM considers this vote to be significant as it is applied under the Climate Impact Pledge, their flagship engagement programme targeting some of the world's largest companies on their strategic management of climate change.	LGIM Future World Emerging Markets Equity Index
Company: Infosys Limited Meeting Date: 19 June 2021 Resolution: Approve revised remuneration for COO Summary: Remuneration not linked to performance Company Management Recommendation: For How the manager voted: Against Vote outcome: The resolution passed even though GW&K Trilogy voted against it. GW&K Trilogy will continue to advocate for and demand companies to develop and disclose remuneration plans that encourage and emphasize long-term performance goals.	GW&K Trilogy Emerging Market Equity Fund (Active)
Company: Prosus Meeting Date: 09 July 2021 Resolution: Approve/implement exchange offer for Naspers shares Summary: Independent adviser review of a third party transaction Company Management Recommendation: For How the manager voted: Against Vote outcome: The resolution passed even though GW&K Trilogy voted against it. GW&K Trilogy will continue to advocate and demand independent advisers review proposed to related party transactions.	GW&K Trilogy Emerging Market Equity Fund (Active)

Section 4: Conclusion

As highlighted throughout this statement, the Trustee has undertaken a large number of activites over the Scheme year in order to build on their their approach towards engagement, and is proud of the progress made thus far. The Trustee believes that the Scheme's engagement policy as outlined in the SIP has been adhered to over the year, going above and beyond in a number of areas, and strives to further improve practice in the future.

Following monitoring of the Scheme's investment managers over the year, and reviewing the voting information outlined in this statement, the Trustee is satisfied that its managers are acting in the Scheme members' best interest and are effective stewards of the Scheme's assets.

The Trustee will continue to monitor the investment managers' stewardship practices on an ongoing basis in order to ensure that the Scheme's investment strategy and Trustee decision-making consistently aligns with the Trustee's investment beliefs, and contributes towards achieving the Trustee's mission statement to provide long-term value and security to the Scheme's members.

Appendix B - Statement of Investment Principles

Marks & Spencer Pension Scheme	March 2022

Statement of Investment Principles

Appendix B - Statement of Investment Principles

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 asset allocation policy together with 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 1 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 addition, with Trustee approval, the IC has established a sub-committee, the Investment Management Committee ("IMC") to implement the Scheme's investment allocation to those assets that fall outside of the Scheme's dedicated liability hedging portfolio, (for example equity, credit, private equity, infrastructure and opportunistic investments.)

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.

Appendix B - Statement of Investment Principles

Governance (continued)

- Appointing and removing members of the IMC and monitoring the work of that sub-committee.
- Appointing advisors and consultants for specific projects.

In broad terms the IMC is responsible for:

- 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.

The IC has delegated responsibility in respect of appointing, monitoring and removing investment managers to the IMC and Trustee Executive Team with advice from the appointed Investment Adviser. The IC may not further delegate its powers, unless further approved by the Trustee.

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 2 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.

Appendix B - Statement of Investment Principles

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	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	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.

Appendix B - Statement of Investment Principles

Risk Measure & Management (continued)

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 4 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.

Appendix B - Statement of Investment Principles

Risk Measure & Management (continued)

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.

Appendix B - Statement of Investment Principles

Investment managers (continued)

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.

Appendix B - Statement of Investment Principles

Responsible Investing (continued)

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.