



## COMET PENSION SCHEME

Statement of investment principles

**December 2023**

## Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 (as amended) for the Comet Pension Scheme ("the Scheme"). It describes the investment policy being pursued by the Trustees of the Scheme and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles') and TPR's Investment Guidance for defined benefit pension schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The Scheme Actuary is Steve Leake of XPS Pensions Group ("XPS"), the Investment Adviser is Schroders Solutions (collectively termed 'the Advisers').

The Trustee confirms that, before preparing this SIP, they have consulted with Group Fnac Darty, the ultimate parent company of Darty Limited ('the Principal Employer') and the Scheme Actuary and have obtained and considered written advice from the Investment Adviser.

The Trustee is responsible for the investment of the Scheme's assets and where they are required to make an investment decision, the Trustee always receives advice from the relevant Advisers first. They believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustee sets general investment policy, but have delegated day-to-day investment of the Scheme's assets to be undertaken through the fiduciary management service of Schroders IS Limited ('Schroders Solutions'), hereafter referred to as the 'Investment Manager'.

## Scheme Governance

The Trustee is responsible for the governance and investment of the Scheme's assets. The Trustee considers that the governance structure is appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Manager or the Advisers as appropriate.

The Trustee will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Sponsoring Employer if deemed appropriate. There will be no obligation to change this SIP, the Investment Manager or Adviser as part of such a review.

## Suitability

The Trustee has defined the investment objective and investment strategy with due regard to the Scheme's liabilities.

The Trustee has taken advice from the Advisers to ensure that the proposed strategy, and the assets held by the Scheme through that strategy, are suitable given its liability profile, the Trustee's objectives, legislative requirements, regulatory guidance and specifications in the trust deed and rules governing the Scheme (the Trust Deed).

## Statutory Funding Requirement

The Trustee will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustee will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

## Investment Objectives

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. The Trustee has set the following qualitative objectives:

1. The acquisition of suitable assets, having due regard to the risks set out in this Statement, which will generate income and capital growth to pay, together with contributions from the Sponsoring Employer (where necessary), the benefits which the Scheme provides as they fall due.
2. To limit the risk of the assets being assessed as failing to meet the liabilities over the long-term having regard to any statutory funding requirement and therefore to minimise the risk of additional cash contributions from the Sponsoring Employer in meeting the balance of costs in underwriting Scheme benefits.
3. To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

In quantitative terms, the Trustee invests in a blend of Growth assets that targets 4% above cash, a portfolio of Investment Grade credit (referred to as Cash Flow Matching Credit) that target 1% above cash and a liability hedge which aims to mitigate the change in the liabilities. The Trustee decides the blend of these funds to target the appropriate return for the Scheme, and this is shown in the Quarterly Monitoring Report.

## Implementation of investment strategy

The Trustee has delegated the investment of the Scheme assets to the Investment Manager, which has discretion to invest the Scheme assets in underlying securities and funds, either directly or through the use of other investment managers of pooled funds (hereafter referred to as the 'Underlying Managers') to run the portfolio on a day-to-day basis. The Trustee has acknowledged and considered with sufficient diligence the potential conflict that may arise from the Investment Manager and the Investment Adviser being the same organisation. The Trustee monitors the potential conflict on an ongoing basis and has set certain investment restrictions and guidelines within its Investment Management Agreement with the Investment Manager to control the conflict.

## Monitoring

The Trustee will monitor the performance of the Investment Manager against the agreed performance objectives.

The Trustee, or any other suitably qualified Adviser on behalf of the Trustee, will regularly review the activities of the Investment Manager to satisfy themselves that the Investment Manager continues to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme.

As part of this review, the Trustee will consider whether or not the Investment Manager:

- Is carrying out their function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustee is not satisfied with the Investment Manager, they will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustee's requirements, the Trustee will remove the Investment Manager and appoint another.

## Corporate Governance and Stewardship

The Trustee and Investment Manager have agreed, and will maintain, formal agreements setting out the scope of the Investment Manager's activities, charging basis and other relevant matters. The Investment Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustee has appointed the Investment Manager to implement the Scheme's investment strategy. The Investment Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustee periodically review the overall value-for-money of using the Investment Manager, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Investment Manager's remuneration is based on the Scheme's asset size, and the Investment Manager is therefore incentivised to maximise the Scheme's asset size over the long term. The Trustee is satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and
- to assess and make decisions based on the medium-to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which is measured relative to the Trustee's long-term performance objectives.

The Scheme's investments are generally made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Managers. The Trustee has delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Investment Manager. The Investment Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Investment Manager are subject to additional sign-off by the appropriate representative from the Investment Manager.

The Investment Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Investment Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Investment Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustee's objectives. The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Investment Manager, as detailed above.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors these as part of their regulatory filings (where available), the Investment Manager also monitors this as part of ongoing review. The Investment Manager's Conflict of Interest policy is available publicly here:

<https://www.schroders.com/en/global/individual/footer/identification-and-management-of-conflicts-of-interest/>

The Investment Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager's expectations. Where there are material deviations the Investment Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

The Trustee does not have its own voting and engagement policies for the Scheme at this time, but it has the responsibility for the voting and engagement policies that the Investment Manager implements on its behalf and review these policies from time to time. The Investment Manager has an ESG policy in place which covers both voting and engagement as part of the overall active ownership strategy.

The Trustee undertakes the engagement directly with their Investment Manager who appoint Underlying Managers to carry out engagement with investee companies directly. The Investment Manager set out its voting and engagement priorities which focus on six themes including climate, Natural Capital and Biodiversity, Human Rights, Human Capital Management, Diversity and Inclusion and Corporate Governance, with a particular focus on the first three. The Trustee has aligned their engagement priorities with the Investment Manager's.

The Trustee believes those engagement priorities which have been chosen by the Investment Manager will result in better management of financially-material ESG and climate risks, therefore it is expected to improve the financial outcome of the Scheme which ultimately is in the members' and beneficiaries' best interest. The Trustee reviews the voting and engagement activity of the Investment Manager on an annual basis including a review of the annual fiduciary management ESG report and will challenge the Investment Manager as necessary on its stewardship activity.

## **Realisation of Investments**

The majority of assets are held in underlying pooled funds, most of which can be realised easily if the Trustee so requires. The Investment Manager is permitted to hold illiquid investments (as defined in the Investment Management Agreement), provided such investments are approved in advance by the Trustee, which the Trustee acknowledges can take additional time to realise. The Trustees have considered this risk against the possibility of needing to realise these assets and are comfortable it is a reasonable approach to take.

## **Derivatives**

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustee has taken advice on the suitability of the contracts and have delegated responsibility to the Investment Manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

## **Additional Voluntary Contributions (AVCs)**

Until 30 September 2007 members of the Scheme had the opportunity to pay AVCs, which are invested and used to increase pension benefits at retirement, or in the event of death. The Trustee established the arrangements under which members may choose to invest their contributions. The Trustee's objectives are to provide members with the opportunity to maximise, as far as is reasonable and sensible, the value of the member's contributions plus investment returns, within the constraints imposed by the member's choice of investments, and to provide members with a reasonable choice of investment.

The current AVC providers are as follows:

- Santander UK plc
- Prudential Assurance
- The Standard Life Assurance Company

## Financially material investment considerations

These considerations which include the below “Risks” can affect the long term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as “ESG”) where relevant.

The Trustee currently employs a fiduciary Investment Manager to manage investments on their behalf including the appointment of individual Underlying Managers. As a result, the Trustee policy is to delegate consideration of financially material factors to the Investment Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. All references to ESG also include climate change. As part of this approach the Trustee reviews some key metrics on (usually) a quarterly basis that are provided by the Investment Manager covering environmental, social and governance which enable them to question the Investment Manager. If the Trustee is not comfortable with the metrics presented, it will ask the Investment Manager to provide an update on the reasons behind these scores. Through a process of review and engagement the Trustee hopes over the long term the Portfolio will be more resilient to factors such as ESG risks.

When assessing the performance of the Investment Manager or making decisions regarding the appropriate model and / or appointee for managing the scheme’s investments the Trustee will ensure that ESG considerations are part of the process.

ESG factors and stewardship are considered on behalf of the Trustee, in the context of long term performance, by the Investment Manager as part of the Underlying Manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement on behalf of the Trustee. The Trustee will from time to time review the Investment Manager’s process for engagement with individual Underlying Managers and will engage with the Investment Manager based on the quarterly portfolio monitoring as required.

## Risks

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
  - A liability benchmark or ‘LB’ is used as a proxy for the liabilities in order to measure the approximate changes in the liabilities (due to changes to the relevant gilt and swap yields only). The Trustee monitors this change relative to the change in asset values on a quarterly basis. The LB is reviewed following each actuarial review, or when significant market or Scheme events (e.g. a significant change in inflation expectations) imply that an amendment may be appropriate.
  - The Trustee also recognises the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed by aiming for a higher overall investment return than implied by the liability discount rate.

- When setting and reviewing investment strategy, the Trustee examines how the investment strategy impacts on downside risk. Downside risk of the investment strategy is also measured by reference to the LB and can therefore also be assessed as part of the quarterly review process.
- This risk is also monitored through regular actuarial and investment reviews including monthly portfolio updates.
- A Liability Hedge is implemented to specifically reduce this risk.
- **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of instruments and strategies designed to control the extent of downside exposure.
  - The selective use of active management when appropriate given market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.
  - Regular monitoring of the managers' performance, processes and capabilities with respect to their mandate and by the diversification across multiple Underlying Managers by the Investment Manager.
- **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.
  - The Trustee has also put in place a dedicated cashflow matching portfolio that is intended to mitigate the risk caused by significantly high levels of benefit payments.
- **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- **Counterparty risk** – the risk of a counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.
- **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- **Currency risk** – the risk that fluctuations in the value of overseas currencies affect the total return of the Scheme's investments when compared to a Sterling benchmark. The Trustee mitigates this risk by electing to allow the Investment Manager to use currency hedging.
- **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Investment Manager and Underlying Managers, e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little or limited default risk.
- **ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Investment Manager's ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio in the quarterly governance report.
- **Mismanagement risk** – the risk of unsuitable investment activity by the Investment Manager. This is addressed in the agreement with the Investment Manager, and in turn by the Investment Manager with

the Underlying Managers, which contain restrictions on the proportion and type of asset classes that the Investment Manager or Underlying Managers may invest in.

- **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the Investment Manager and Advisers by the Trustee, and of the Underlying Managers by the Investment Manager.
- **Sponsor risk** – the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly review the covenant of the Sponsoring Employer with the assistance of a third-party covenant adviser.

The Trustee will keep these risks and how they are measured and managed under regular review.

## Non-financial matters

The Trustees does not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustee has no plans to seek the views of the membership on such non-financial and/or ethical considerations.