Statement of Investment Principles

September 2020

NOW: Pensions

The future is now

Statement of Investment Principles
NOW: Pensions Trust

Adopted by the Trustee on 30 September 2020.

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Joanne Segars
Chair of the Trustee Board

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Section 1:
Introduction

Background

1.1 The Statement of Investment Principles (the Statement) sets out the principles, beliefs and policies adopted by NOW: Pension Trustee Limited (the Trustee) in investing the assets of NOW: Pensions Trust (the Trust), taking into account the requirements of the Pensions Act 1995 (the Pensions Act), the Occupational Pension Schemes (Investment) Regulations 2005 and other relevant legislation, as well as the principles recommended by the Myners Code.

1.2 The Statement is available to members on the website (www.nowpensions.com). It will be reviewed at least once every three years or after any significant change in investment policy.

Nature of the Trust

1.3 The Trust is a defined contribution scheme and all the benefits it provides are based on the balances on the member's individual pension account, without any guarantees of performance.

Section 2: Governance

2.1 The Trust is governed by its Trust Deed and Rules, which set out the benefits in detail and specify the Trustee's investment powers.

2.2 The Trust's assets, representing the balances on individual members' pension accounts (the Fund), are invested in the best interests of the Trust's members and beneficiaries.

2.3 The Trustee is responsible for deciding how to invest the Fund and may delegate certain decisions to Investment Manager(s). The Trustee must establish and regularly review the investment objectives and decide on how best to achieve these objectives.

2.4 The Trustee must consult with NOW: Pensions Limited as the Employer Representative and receive advice from someone who has appropriate knowledge and experience, in order to ensure that the Trust complies with the provisions of the Pensions Act 1995, including preparing, maintaining and periodically revising this Statement.

2.5 The Trustee has entered into an investment management agreement (IMA) with Cardano Risk Management Limited (the Investment Manager), has appointed them as its primary fund manager, and has delegated to them all day to day investment functions, subject to regular monitoring and review. The IMA sets out the details of each investment strategy (see Investment Strategy below) along with performance targets ensuring clear alignment with the Trustee and will reflect the policies set out in this statement.

2.6 The Trustee, having delegated day to day investment functions to the Investment Manager, does not require advice in respect of Section 36 of the 1995 Pensions Act. Where any such advice is required, the Trustee would seek it from its investment adviser which is appropriately qualified and has the knowledge and experience required to review the investment management. The Trustee has appointed Redington Ltd. as its investment adviser.

Section 3: Investment strategy

Objectives of the default strategy

3.1 The aims and objectives of the default strategy are intended to ensure that assets are invested in the best interests of members of the Trust. The Trustee's primary objective is to decide on an investment strategy which

3.1.1 is appropriate to the members of the Trust, taking into account their planned retirement age

and

3.1.2 will, in the long term, deliver a satisfactory return in real terms on the contributions invested.

Investment beliefs

3.2 The Trustee determines the investment strategy based upon the following key investment beliefs:

3.2.1 The appropriate measure for a successful investment strategy is the ability to maximize retirement payouts in real terms subject to the risk defined below.

3.2.2 The level of investment risk taken should seek to protect members from significant reductions in the value of their pension fund at retirement. This is achieved by the use of the Journey Path noted later, by diversifying the investments and by using various techniques to mitigate risk.

Investment strategy

3.3 The determination of an appropriate default investment strategy is the decision that has most influence on the ability of the Trust to achieve the member's desired retirement outcome.

3.4 Based on the investment beliefs, the Trustee has decided to offer a single investment journey for all members, taking into account an individual member's planned retirement age. This can be described as a life-cycle approach, which divides the investment period into three phases:

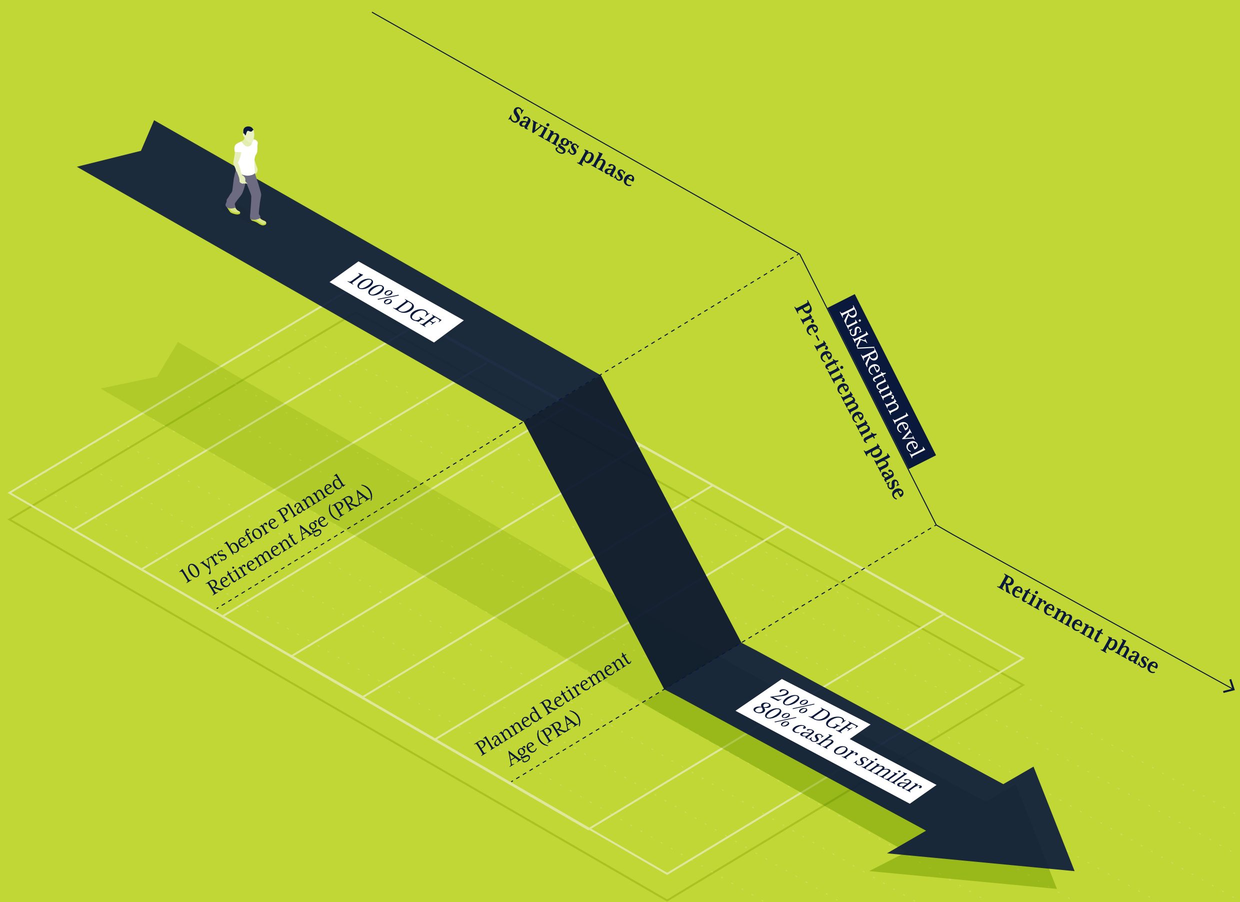
3.4.1 **Savings phase:** This is a period of savings when the member's fund is building up and retirement is still some time in the future. The focus is on getting the best return subject to an acceptable level of risk. During this phase 100% of the member's fund is invested in the Diversified Growth Fund (DGF).

3.4.2 **Pre-retirement phase:** A period of ten years leading to the planned retirement age, during which time the investment returns which have been achieved in the savings phase are consolidated and preparations are made for a smooth transition to retirement.

3.4.3 **Retirement phase:** This is the position at (or beyond) the planned retirement age. By this stage 80% of the assets will be in cash or similar assets with low volatility of capital value and 20% of the assets will be invested in the DGF.

Members' saving journey to retirement

Our phased approach to managing your pension saving (glidepath to retirement)



3.5 In order to achieve the characteristics of these three distinct phases of membership of the Trust, member savings will be made in three different funds depending on how long they have to go before retirement:

- The first fund provides investment returns from a diversified range of investments for the savings phase. This is the Diversified Growth Fund;
- The second and third funds are invested in cash and similar investments to protect the capital.

At the planned retirement age each member will have 80% of their assets invested in the second and third funds and 20% of their assets invested in the DGF. During the pre-retirement phase their fund will be gradually adjusted from being entirely in the DGF ten years before the planned retirement age to being 80% in the second and third funds.

3.5.1 The DGF invests in a broad range of asset classes which each have a significant level of investment risk, but with the aim of reducing overall risk by diversification. The aim over a five year horizon is to achieve a return on average 3% a year more than the return on cash. The fund allocates the investments between the following four risk factors, each of which has different risk characteristics:

NOW: Pensions Diversified Growth Fund

Equity factor

Predominantly contains exposure to global equity risk. The exposure is achieved by investing in equities, equity derivatives or in funds containing similar investments. Such investments produce returns which generally reflect economic growth. It may also hold exposure to credit risk on companies, supranational institutions and governments, investing in credit derivatives, bonds with credit risk or in funds containing similar investments, which normally have a positive yield spread to the investments in the Rates class.

Rates factor

Holds investments in government and other bonds with low credit risk and in interest rate derivatives, reflecting movements in interest rates in order to deliver returns based on investment in high quality bonds.

Inflation factor

Predominantly contains exposure to inflation risk. It can hold investments in index-linked government and other bonds with low credit risk and in inflation and interest rate derivatives, in order to achieve returns which are driven by inflation developments. It can also hold investments in commodity derivatives or in funds containing similar investments.

Other factors

Able to hold investments in various diversifying instruments with an objective of improving the risk adjusted returns of the portfolio.

3.5.2 For those interested, more details of the limits placed on allocation to the four distinct risk factors are given in Appendix C.

3.6 The majority of assets held are readily realisable to provide cash to ensure the necessary liquidity to meet payments under the Trust.

Additional Voluntary Contributions

3.7 Active members of the Trust can choose to pay Additional Voluntary Contributions (AVCs). AVCs are invested in the same funds as the normal contributions paid into the Trust.

Investment Choice

3.8 The Trustee believes that the benefits of providing a single member journey path (shown on page 7), tailored to the planned retirement age of each member, best meets the members' objectives, because a wider choice of funds often results in member disadvantage.

Responsible Investment

3.9 The members and Trustee have a long-term investment horizon for the portfolio and therefore the Trustee acknowledges the importance of being a responsible investor. The Trustee considers responsible investment to be the integration of environmental, social and governance factors (ESG) into investment decisions in respect of the portfolio where financial risk and / or return is or could be materially affected. These considerations include the potential impact of climate change. This is the approach that has been adopted by the Trustee when determining the investment strategy for the single member journey path.

3.10 The Trustee believes that by being a responsible investor, it is managing investment risk with the aim of enhancing long-term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme.

3.11 The Trustee has delegated investment management responsibility to the Investment Manager. As part of their investment management mandate, the Investment Manager is responsible for taking account of ESG in decisions regarding the selection, retention and realisation of investments. The Trustee has considered the Investment Manager's policy on these matters and considers it to be consistent with the Trustee's responsible investment beliefs.

3.12 The Trustee monitors how the Investment Manager integrates ESG into its investment process.

3.13 Consistent with their responsible investment beliefs the Trustee has agreed that an allocation to Green Bonds be included in the portfolio. Green bonds are a type of bond investment which raise money for climate related and environmental projects. This allocation is expected to capture the financing of projects and initiatives that are relevant to transitioning to a low-carbon economy. For example, the proceeds have been used to fund projects focused on renewable energy, energy efficiency, fighting and adapting to climate change, protection of biodiversity and fighting pollution.

3.14 The Trustee's investment strategy is achieved predominantly through derivative instruments related to global market indices. This approach limits opportunities to hold individual stocks and integrate ESG factors.

3.15 In response to these current limitations, the Trustee is undertaking a full Strategic Investment Review during the 2020/21 Scheme Year to enhance the opportunities to integrate ESG factors into the investment portfolios.

3.16 In relation to corporate governance and engagement, the Trustee expects the Investment Manager, and any UK regulated asset managers of third-party funds, to be a signatory of the Stewardship Code published by the Financial Reporting Council. The Investment Manager is a signatory to the Code. Where applicable, considering the implementation approach, the Trustee expects that the Investment Manager and any asset managers of third-party funds will engage with relevant persons (including issuers of debt or equity, sub-investment managers companies, other stakeholders or other holders of debt or equity) on relevant matters (including performance, strategy, capital structure, the management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), and exercise voting rights, with the aim of having a meaningful impact protecting and enhancing the value of assets consistent with the Trustee's policies.

3.17 Where the Investment Manager invests assets in third party funds, it will engage with the managers of these funds regarding their voting records and level of engagement with the underlying investments that are being invested in to ensure the approach is consistent with the policies of the Trustee. Where applicable, the Investment Manager's stewardship policies and voting records are reviewed (and discussed with the Investment Manager) at least annually by the Trustee. The Trustee will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

Investment Management and Adviser Fees

3.18 Investment Manager fees are set out in the IMA and based on the cost of providing the investment management services, as set out in the Investment Management Agreement. The Trustee believes that this is the most appropriate way in which to remunerate the appointed Investment Manager.

3.19 The Investment Manager is not permitted to receive remuneration from other sources, such as commissions, spread between buying and selling price of units in the Fund, or exit charges.

3.20 Investment advisers' fees are based on the cost of providing investment advice and are paid either on a time cost basis (based on time spent) or on a fixed cost basis. All work and basis of pricing is agreed in advance for each discrete piece of work undertaken.

Non-financial factors

3.21 The Trustee is working on gaining a better understanding of the views of the membership in relation to investment and other matters to ensure that these are reflected in the decisions we make on investment and delivering our services to members.

Pricing of units

3.22 Fund units are single-priced on a weekly basis. One price is therefore used for purchases and sales.

Section 4:
Risk management

4.1 The key risk is not meeting the members' objective that in the long-term a satisfactory return in real terms on the contributions invested will be delivered. The need to address this risk provided the motivation for the investment strategy which the Trustee has adopted. The Trustee's policy in respect of risk measurement methods and risk management processes is set out below (the risk management principles are considered further in Appendix D).

4.2 The Trustee sets the limits for the investment risks. Compliance with the limits is controlled on a daily basis by the Investment Manager. The limits are set for each fund separately.

4.2.1 The target risk level for the Diversified Growth Fund is a risk level corresponding to a strategy invested 60% in equities and 40% in bonds. The Trustee has established a range around the target risk level at which the Investment Manager may operate (see Appendix C).

4.2.2 The target levels for the distribution of risk between the four risk factors for the DGF are set by the Trustee and may change from time to time.

4.3 In order to meet the members' objectives, the investment strategy for the DGF must take investment risk. The structure, diversification, risk management tools, risk management targets and ranges help assure the appropriate level of risk is taken throughout the member journey path.

Arrangements with Managers

4.4 As part of the appointment process, and on an ongoing basis, the Trustee reviews the investment objectives and contract terms of the Investment Manager, including financial incentives, to ensure consistency with their investment strategy and investment policies, including their Responsible Investment requirements. Annual reviews of the Investment Manager focus on medium to long-term, rather than short term performance and this provides incentive for the Investment Manager to do the same. In reviewing contract terms, the Trustee takes into account the resource required to manage the portfolios, including the Investment Manager's remuneration, as well as the extent to which the Investment Manager provides value for members of the Scheme.

4.5 Although the Trustee's arrangement with the Investment Manager is expected by the Trustee to be a long-term partnership, its appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure of the investment team or where it fails to ensure alignment with the Trustee's policies.

4.6 The Trustee meets the Investment Manager from time to time to discuss their investment performance, focusing on long-term outcomes, strategy, performance as responsible investors, approach to adhering to the Trustee's policies and to discuss any issues of concern. The Investment Manager provides regular reporting as set out in Section 5 of this SIP to support the Trustee with its monitoring. The Trustee's review process includes specific consideration of how the Investment Manager has implemented the responsible investing policies and engagement activities included in this Statement.

Section 5: Review and Evaluation of Arrangements

Reporting

5.1 The Investment Manager measures the return of each fund available to members for investment. The Trustee receives quarterly reporting from the Investment Manager on performance and on compliance with the risk limits of each fund.

5.2 The Trustee regularly monitors performance and compliance with the risk limits of each fund.

5.3 The performance of each fund will be measured and reported on against relevant benchmarks.

5.4 The costs associated with managing the portfolio (fees and expenses, including transaction costs) are monitored on a quarterly basis. A further review in line with the framework is carried out on an annual basis.

5.5 The Trustee receives portfolio turnover information from the Investment Manager and monitors transactions costs.

5.6 The Investment Manager will be required to provide information, at least annually, on how they take financial and non-financial risks into consideration over the medium to long term, including but not limited to detailing their engagement activities with investee companies, where relevant.

Review of Investment Management

5.7 The Trustee reviews strategies and results with the Investment Manager every quarter.

5.8 The Board has established an Investment Committee to monitor and review the performance of the Investment Manager and consistency with the policies set out in this Statement of Investment Principles. This review also includes any managers of third-party funds. The Investment Committee reports to the Board.

5.9 The Investment Manager attends Trustee meetings to present annual investment reports and be held to account for the performance. It will attend quarterly Investment Committee meetings.

5.10 The Trustee's policy is, from time to time, to review the suitability of the agreed investment strategies and the investment approach, including reviewing the investment allocation annually.

5.11 The Trustee holds the Investment Manager accountable to apply the principles in this statement so far as is reasonably practical.

Appendix A: Current Advisers and Service Providers

BNY MELLON

Custodian:
Bank of New York Mellon Corporation

cardano

Investment Manager:
Cardano Risk Management Ltd (CRML)

MERCER

DC Plan Administrator:
Mercer

REDINGTON

Investment Adviser:
Redington Ltd

Sackers

Legal Adviser:
Sacker & Partners LLP

Appendix B:
Trust Investment Strategy

The following tables provide information about the investment funds available to members of the Trust.

Investment Fund	Performance objective	Investment objective	Investments
Diversified Growth Fund	**SONIA[1] + 3 per cent annually**	To create capital growth over the medium to long term by investing in a diversified pool of risky assets.	The fund invests in: **1.** Equities, equity derivatives or in funds containing similar investments **2.** Government and other bonds with low credit risk and interest rate derivatives. **3.** Bonds with credit risk or in funds or derivatives containing similar exposures. **4.** Government and other index-linked bonds with low credit risk and inflation and interest rate derivatives. **5.** Commodity derivatives or funds containing similar investments.
Retirement Countdown Fund (RCFI & RCFII)	**SONIA[1]**	This fund aims to achieve returns in line with overnight GBP cash investments. The fund provides security of principle and liquidity for members in the run up to retirement.	The fund invests in cash deposits, money market funds, and short-dated bonds with low credit risk.

[1] SONIA is the Sterling Overnight Interest Average rate.

Appendix C: Limits on allocation to risk factors

The target level of risk within the DGF is set by the Trustee and is calculated by reference to the level of risk with a 60% Equity / 40% Bond portfolio. The distribution of risk between the four risk factors should target the following levels and must be within the listed boundaries:

NOW: Pensions Diversified Growth Fund

Equity factor
Minimum 20%
Target 35%
Maximum 50%

Rates factor
Minimum 20%
Target 35%
Maximum 50%

Inflation factor
Minimum 0%
Target 15%
Maximum 30%

Other factor
Minimum 0%
Target 15%
Maximum 30%

The risk is measured as the average size of the worst losses that is expected to materialize with 1% probability on a 3 months horizon. Target levels and boundaries may change from time to time.

Appendix D: Risk Management Principles

The risk management principles relating to different types of risks are listed below:

Currency risk and Leverage Risk:

Currency risk and leverage within the portfolio is managed at the discretion of the Investment Manager within the underlying funds.

Counterparty risk:

Counterparty risk is related to assets held in credit institutions and to derivative exposures. The risks are mitigated by spreading the exposures on several counterparties, by using standardised agreements and by collateralisation of derivative exposures.

Concentration risk:

Concentration risk is mitigated by diversifying the investments on risk classes and investment products used for implementation and issuers.

Liquidity risk:

Liquidity risk is mitigated by the requirement for a sufficient level of cash holdings in each fund to provide for cash withdrawals from members.

Operational risks:

The operational risks relating to the investments are mitigated by requirements set out in the investment management agreement with the Investment Manager. The requirements reflect that the Investment Manager may use derivatives and other non-traditional products in performing the investment strategy.

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