Statement of Investment Principles

April 2021

NOW: Pensions

The future is now

Statement of Investment Principles
NOW: Pensions Trust

Adopted by the Trustee on 26 April 2021.

Joanne Segars
Chair of Board of Trustee

Contents

1

Introduction

Background

1.1 This Statement of Investment Principles (the Statement) sets out the investment beliefs, high level objectives, policies and principles governing the investment decisions made by NOW: Pension Trustee Limited (the Trustee) in relation to the NOW: Pensions Trust (the **Trust**). It has been prepared in accordance with 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. It is reviewed at least once every three years or after any significant change in investment policy.

Trust
A trust is a way of managing assets – in this case, money – on behalf of other people. A pension trust keeps money in the pension scheme separate from the scheme's employer. Our Scheme is a master trust – a type of defined contribution (DC) pension scheme that lots of different employers take part in, managed by a board of trustee directors who share responsibility for ensuring the Scheme always runs in the best interests of its members.

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.

2

Governance

2.1 The Trust is governed by its Trust Deed and Rules, which set out in detail the benefits 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 sets and regularly reviews the investment objectives for the Fund. The Trustee is responsible for deciding how to invest the Fund and has delegated certain decisions and responsibilities to an Investment Manager, Cardano Risk Management Limited (Cardano).

2.4 The Trustee ensures that appropriate guidelines and restrictions are agreed with the Investment Manager which clearly set out their responsibilities and the scope of their powers. The Trustee has taken all such steps as are reasonable to satisfy itself that the parties to which they delegate responsibilities have the appropriate knowledge and experience required to take on their role.

2.5 The Trustee has entered into an Investment Management Agreement (IMA) with Cardano as its Investment Manager, and has delegated to them all day-to-day investment functions, subject to regular monitoring and review. The Trustee holds the Investment Manager accountable to apply the Statement in so far as is practical.

2.6 The Trustee has consulted with NOW: Pensions Limited (NPL) as the Employer Representative on the contents of the Statement.

2.7 The Trustee has received advice on the content of this Statement from its Investment Adviser, Redington Ltd. The Trustee is satisfied that the Investment Adviser has the knowledge and experience required by the Pensions Act to perform this role.

2.8 The Trustee has established an Investment Committee whose role is to oversee the Investment Manager and to monitor progress against the Fund's investment objectives and consistency with this Statement.

3

Investment Beliefs and Objectives

Investment Beliefs

3.1 The Trustee determines the investment strategy based upon the following key investment beliefs.

- **Choice:** Given our members' profile and limited member engagement/feedback, offering a single investment choice (or default strategy) is most appropriate. This approach is simple to communicate, efficient to implement and effective in meeting our members' retirement needs. This option means one Journey Path and common risk/return profile for members at each stage of the Journey Path.
- **Return-seeking:** For long-term pension benefits, members must take risk and earn a return above inflation. Taking investment risk is usually rewarded in the long-term. Higher risk assets (eg shares) are expected to outperform lower risk assets (eg government bonds) but are also expected to have higher variability of returns (volatility).
- **Journey Path:** A properly structured Journey Path allows additional return seeking assets during the majority of the member's investing period because the volatility is managed during the transition phase as the member approaches the retirement phase. Therefore, members benefit from higher returns in early years as the investment time horizon is long and transition to cash at retirement. The Journey Path reflects the characteristics of the Trust's membership.

Journey Path
This describes how, starting 15 years before a Scheme member reaches their planned retirement age, we gradually switch their pension savings from our Diversified Growth Fund (which aims to help grow members' pension savings faster than inflation over the long term) mainly into our Retirement Countdown Fund (which aims to protect the value of members' pension savings, reducing the risk of them falling in value before members turn them into retirement benefits).

- **Responsible Investment:** As long-term investors, incorporating environmental, social and governance (ESG) factors into a Responsible Investment (RI) process is integral to long-term success. RI matters in the long run and the risks associated with ESG factors should be measured and managed.
- **Asset allocation & diversification:** Risk based strategic asset allocation is the biggest driver of long-term investment performance, more than manager selection or security selection. Diversification and volatility management are key to enhancing return while managing risk in all stages of the Journey Path.
- **Decision making:** Taking account of asset values/prices, economic conditions and long-term market developments enhances long-term performance and informs strategic decisions. The world is complex; judgment and qualitative research are important alongside quantitative analysis.
- **Active vs passive:** Indexed management may be more efficient than active management. The choice of the right index to follow is important. Market opportunities to deliver returns in excess of an index, net of fees, may exist, but identifying managers that consistently deliver excess returns after costs is challenging.
- **Costs matter:** Both annual management charges and transaction costs should be considered. The Trustee has a bias towards lower cost solutions.

Responsible investing
Making investment decisions based on environmental, social and governance (ESG) factors. Incorporating ESG factors into a responsible investment process is integral to long-term success.

Asset allocation
How different types of investment asset, such as equities, bonds (loans to the government or companies) and cash, are spread in an investment fund. 50% equities, 40% bonds, 10% cash is an example of an asset allocation.

Indexed management/Passive management
An investment strategy that aims to match the investment returns of a market, rather than aiming for higher returns.

- **Derivatives and leverage:** Derivatives can be used to contribute to the reduction of risks or to facilitate efficient portfolio management. Their use and the use of leverage must be thoughtfully managed and communicated.

- **Currency:** Our members work in pounds (GBP) and save in pounds. However, investments may be made overseas. Currency risk will therefore be considered in all investment strategy decisions and will be appropriately managed throughout the Journey Path.

- **Less liquid assets:** Less liquid assets (eg infrastructure, private equity) may provide an incremental risk-adjusted return. Less liquid assets that provide sufficient reward to compensate for illiquidity and additional costs may be suitable long-term investments. The use of these assets needs to be appropriately sized.

Derivative
A contract between two or more investors, where the value of the contract is based on a type of financial asset, index (a way to measure investment performance) or security (a financial asset that can be traded) that the investors agree on.

Types of derivative include futures (where investors agree a price the asset can be sold at in future) forward contracts (which lock in a future interest or exchange rate), options (which give investors the right to buy or sell assets at an agreed time and price), swaps (investors can exchange the costs, risks and interest rates of their assets at favourable times), and warrants (similar to options, but issued by companies rather than banks). Derivative investments are mainly used to manage risk.

Leverage
Borrowing money – which can be capital (cash) or financial instruments (such as bonds or derivatives) – to increase the potential return of an investment.

Portfolio
Here, it means a collection of investment funds.

Liquid and less liquid assets
Liquid assets are quick and easy to sell and turn into cash. Less liquid assets, such as property or infrastructure, may take longer to sell and turn into cash.

Infrastructure
Includes utilities such as water or electricity, transport – for example, roads and bridges – and IT networks.

Investment Objectives

3.2 Based on their investment beliefs, the aims and objectives of the Trustee's default investment strategy are intended to ensure that assets are invested in the best interests of members and beneficiaries of the Trust (referred to as 'members' for ease in the rest of this document).

3.3 The Trustee has decided on a default investment strategy which it considers appropriate for the members of the Trust, taking into account their planned retirement age. They expect the strategy to deliver, in the long-term, a satisfactory return in real (inflation-adjusted) terms on the contributions invested. 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 A common Journey Path is offered to all members which divides the investment period into three phases.

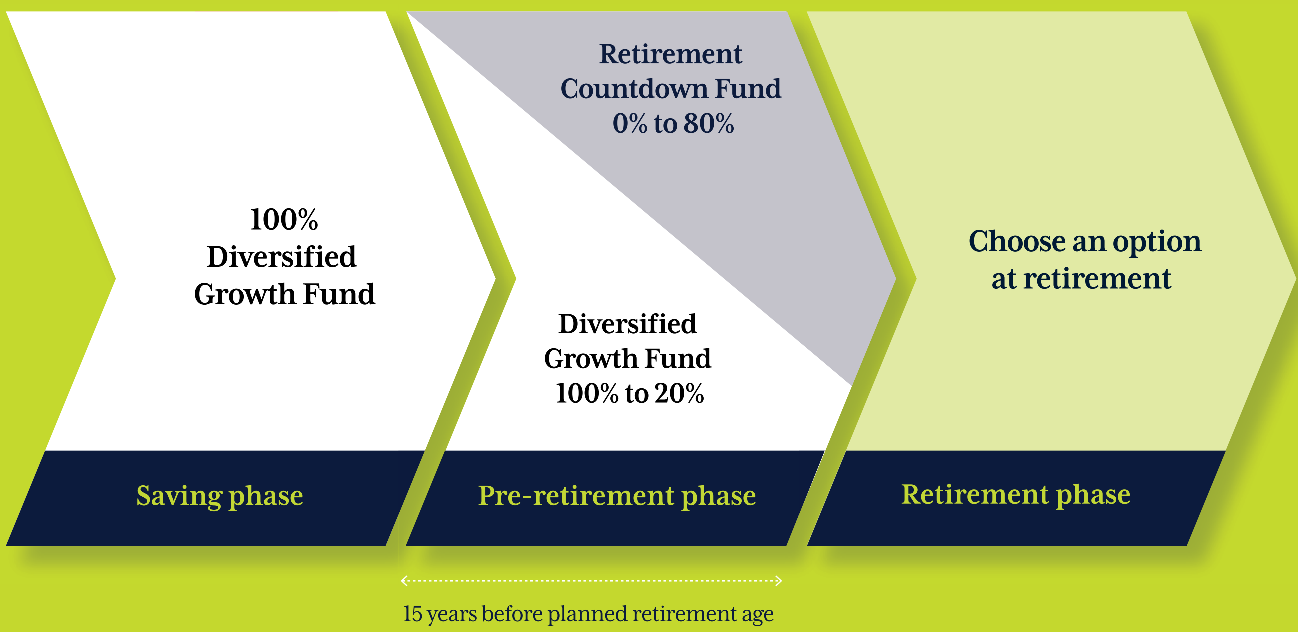
- **Savings phase:** This period starts when the member first joins the Trust until 15 years before their planned retirement age. This savings phase is when the member's pension account is building up and retirement is still some time in the future. All of the member's account will be invested in the Diversified Growth Fund (DGF). The DGF is a growth-focussed fund where the member's assets are invested in a broad range of investments seeking to provide grow faster than inflation while managing risk.
- **Pre-retirement phase:** During the 15 years leading to the planned retirement age the member's expected risk, and therefore expected return, is gradually reduced. Their exposure to the DGF is reduced while their exposure to the Retirement Countdown Fund (RCF) is increased. The RCF is a retirement-focussed fund which is specifically designed to **preserve capital** as the member approaches retirement. Preparations are made for a smooth transition to retirement by reducing the volatility of the member's account over time as they approach retirement.
- **Retirement phase:** This is the position at (or beyond) the planned retirement age. By this stage 80% of the member's account will be in the RCF and 20% of the account will remain in the DGF.

The Journey Path is illustrated overleaf.

'Preserve capital
'...protect the value of pension savings'

The Journey Path

The retirement Journey Path gradually moves your pension savings from the **Diversified Growth Fund** so that they're mainly in the **Retirement Countdown Fund**, over a 15-year period



Diversified Growth Fund
Return target – 4% a year above inflation (after investment charges)

Retirement Countdown Fund
Return target – cash, to preserve capital

Your retirement options

1. Stay where you are.
2. Take your savings as a cash lump sum. When you take your savings, 25% is normally payable tax-free.
3. Transfer to another provider to generate a guaranteed income, or drawdown income.

Responsible Investment

3.5 A key Trustee belief is that, as long-term investors, incorporating ESG factors into a RI process is integral to long-term success. RI matters in terms of financial performance in the long run and the risks associated with ESG factors should be measured and managed. By being a responsible investor, the Trustee 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 Trust.

3.6 This belief is based on the view that, as part of the Trustee complying with 3.5 above and 3.8 below, it is possible to invest in a way which contributes to a more sustainable world, with a beneficial effect on portfolio returns.

3.7 In addition to risk and return objectives set for the DGF and RCF, the Trustee believes it is essential to measure and manage the impact of its investment policy and so has set RI objectives. Consistent with 3.5 above and 3.8 below, the Trustee will consider the impact of its investments and whether they are leading to sustainable financial benefits for members. This will allow the Trustee to better understand and consider the financial risks and opportunities associated with the transition to a more sustainable world.

3.8 The Trustee will seek to meet its RI objectives throughout all components of the Fund, within the constraints of the investment strategy, costs and operational considerations, while still continuing to deliver the chosen risk and reward objectives.

3.9 The Trustee has considered the Investment Manager's policy on taking account of ESG factors in decisions regarding the selection, retention and realisation of investments. The Trustee considers the Investment Manager's policies on these matters to be consistent with the Trustee's RI beliefs. Consequently, the Trustee has delegated responsibility for taking account of ESG factors to the Investment Manager as part of the overall delegation of day-to-day investment management responsibilities. The Trustee monitors how the Investment Manager integrates ESG into its investment process.

3.10 As part of complying with 3.5 and 3.8 above, the Trustee is supportive of the Investment Manager's approach seeking to align, where possible, its portfolios in the long-term to support the United Nations Sustainable Development Goals (and specifically respect and support for human rights and avoiding human rights abuses as set out in UN Global Compact Principles 1 and 2) and the Paris Climate Agreement. The Paris Climate Agreement seeks to limit global warming to well below 2, and preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

3.11 Specifically in relation to the Trust assets, and subject to 3.5 and 3.8 above, the Trustee has set these goals as part of its RI objectives.

- Net Zero carbon emissions by 2050, consistent with the Paris Climate Agreement. Net Zero refers to achieving a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere.
- At least half of the portfolio's net asset value in investments which support the Trustee's RI beliefs, by the end of 2021.

3.12 The Trustee believes that setting and supporting these objectives, when appropriately implemented, will not lead to a reduction in the overall importance of the financial risk and return objectives in the management of the Trust's assets. However, the Trustee recognises that there are components of the strategy where the ability to affect a tangible real-world impact is lower. While it is important that ESG considerations are given to all assets, the Trustee believes that they do not detract from the balanced risk approach adopted by the Investment Manager in its approach to the Trust's strategic asset mix.

3.13 The Trustee started their RI journey a number of years ago with its allocation to **Green Bonds**. Green Bonds are fixed-income investments designed to support the financing of specific climate-related or environmental projects. For example, the Trust's bonds have been used to fund projects focused on renewable energy, energy efficiency, fighting and adapting to climate change, protection of biodiversity and fighting pollution. This allocation has recently been increased to include sustainable bonds and ESG based equity and cash funds. As far as legally permitted, the Trustee expects to continue to have an increasing proportion of the Fund dedicated to the pursuit of its RI objectives within the constraints of the investment strategy, costs and operational considerations.

Green bonds
Loans that support the financing of climate-related, social or environmental projects.

3.14 The Trustee recognises that the measurement of impacts of investments is a complex and rapidly developing area. It expects to work in conjunction with its Investment Manager to develop the necessary frameworks to progressively measure impact over time.

3.15 The Trustee recognises the pivotal role that good stewardship of assets will play in meeting its RI objectives.

- The Trustee believes the greatest impact will be achieved if, through its appointed Investment Manager, it is able to exert an influence on the companies in which we invest through active engagement and dialogue.
- The Trustee expects the Investment Manager to be a signatory of the UK Stewardship code and to exercise voting rights, with the aim of having a meaningful impact protecting and enhancing the value of assets consistent with the Trustee's policies.
- Where engagement fails to achieve meaningful impact, the Trustee expects the Investment Manager to exercise its voting rights appropriately. Reducing investment or complete disinvestment remain as options.
- The Trustee expects the Investment Manager to be a signatory to ESG industry initiatives engaging collaboratively, such as Principles for Responsible Investment, Climate Action 100+, the Net Zero Asset Managers Initiative, the Institutional Investors Group on Climate Change (or equivalent group in other regions), the Diversity Initiative and to adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Consistent with the approach to responsible investing, the Trustee believes that, to the greatest extent possible, this stewardship and engagement approach should be applied through all aspects of the Fund.

3.16 The Trustee recognises that the Investment Manager might appoint third-party asset managers to manage **investment mandates** or funds to achieve some of these objectives. The Trustee expects those third-party managers, mandates and funds to conform closely to standards consistent with its own beliefs and that of the Statement, though it recognises there may be points of difference in the beliefs of different management organisations. The Trustee expects any such third-party asset managers to apply stewardship principles consistent with those above, and to provide appropriate disclosures to enable conformance with their overall policies and objectives.

3.17 A review of engagement undertaken by the Investment Manager and any third-party asset managers will be assessed by the Trustee annually as part of producing an annual Implementation Statement. Where applicable, when considering the implementation approach, the Trustee expects that the Investment Manager and any third-party asset managers will engage with relevant persons (including issuers of debt or shares, sub-investment managers companies, other stakeholders or other holders of debt or shares) 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) with the aim of having a meaningful impact of protecting and enhancing the value of assets consistent with the Trustee's policies.

3.18 The Trustee expects that RI will be an area which will change as policy from governments, regulators and other institutions evolve. As a result, the Trustee expects to evolve its own policies over time and supports its Investment Manager in responding to developments.

Non-financial factors

3.19 The Trustee believes that by being a responsible investor, they are 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 Trust. Beyond these requirements of responsible investing, the Trustee does not explicitly target any non-financial matters in their investment decision making. The Trustee continues to work on gaining a better understanding of the views of the membership in relation to investment and other matters to ensure that, as far as legally permitted, these are reflected in the decisions we make on investment and delivering our services to members.

Investment mandates
Agreements between the Trustee and their investment managers that set out how the managers will invest money.

4

Investment Strategy: DGF

Investment Objectives

- **Return Objective**
  To deliver a return in excess of inflation, as measured using the Consumer Price Index (CPI), of 4% a year (CPI +4% a year) or more over the long-term, net of the asset-based charge.

- **Risk Objective**
  The expected risk, measured in terms of annual volatility, is 12.5% a year. The expected range is from 10% to 15%.

- **RI Objective**
  Net Zero carbon emissions by 2050, consistent with the Paris Climate Agreement, and at least half of the portfolio's net asset value in investments which support the Trustee's RI beliefs by the end of 2021.

4.1 The Investment Objectives are set and reviewed by the Trustee with the primary consideration being the expected long-term return allowing for the trade-off with investment risk.

4.2 The Return Objective is specified in the guidelines to the IMA agreed with the Investment Manager. The Investment Manager is tasked with investing the assets to deliver the Return Objective consistent with the Risk Objective and the RI Objective.

Investment Strategy

4.3 The DGF allocates the investments between five investment groups, consisting of different asset classes, each of which has different risk and return characteristics. The balance across the asset classes is at the Investment Manager's discretion, subject to agreed guidelines which are set out in detail in the IMA.

4.4 The Investment Manager bases its decisions on its long-term risk and return assessment of different asset classes, anticipated levels of diversification, impact of changing economic conditions, RI factors and its assessment of an investment's alignment with RI objectives.

4.5 The investment groups, likely asset classes to be held, and risk exposure ranges are set out in the diagram below.

Investments are managed in groups to deliver the return, risk and RI objectives

Equity	Interest	Inflation	Income	Other
Equities (ie shares) including: developed market equity, emerging market equity and private equity.	Assets which pay cashflows to investors and whose value is primarily affected by changes in interest rates including: government bonds, sustainable bonds and interest rate swaps.	Assets whose value is linked to inflation, including: inflation bonds (government and non-government), inflation swaps and commodities (excluding fossil fuels).	Assets that pay regular income including: investment grade credit, high-yield credit, emerging market debt and illiquid investments, such as property or infrastructure.	Assets that are different to the other investment groups such as foreign currency and gold.
Purpose in portfolio Generate returns	**Purpose in portfolio** Manage portfolio risk Generate returns	**Purpose in portfolio** Manage portfolio risk May generate returns	**Purpose in portfolio** Generate returns	**Purpose in portfolio** Manage portfolio risk Generate returns
Risk exposure 0-70%	**Risk exposure** 0-70%	**Risk exposure** 0-50%	**Risk exposure** 0-30%	**Risk exposure** 0-30%

4.6 A combination of physical and derivative investments will be used in the management of the DGF. A derivative is a contract between two or more investors whose value is based on an agreed-upon underlying financial asset, index, or security. Futures contracts, forward contracts, options, swaps, and warrants are commonly used derivatives.

4.7 The Trustee has set the Investment Manager guidelines, including permissible ranges for each kind of investment, which are set out in detail in the IMA. The Investment Manager adjusts the balance of investments in the portfolio in response to evolving market conditions and ensures that:

- it stays within the guidelines;
- it is appropriate to achieving the Return Objective, Risk Objective and RI Objective;
- there is sufficient liquidity to meet cashflow requirements; and
- there are sufficient assets available to manage the derivative positions.

4.8 The majority of assets held are readily realisable which is intended to provide for sufficient liquidity to meet members' purchases and sales and to manage the derivatives.

4.9 Less liquid assets may be used but should be appropriately sized with due consideration to the DGF Investment Objectives, likely liquidity needs and cashflows of the portfolio, together with costs and valuation/pricing considerations.

4.10 The Trustee delegates assessment of the expected return on investments to the Investment Manager. This is one of the factors taken into account by the Investment Manager when selecting the balance of assets to target the Return Objective.

4.11 The Trustee delegates decisions around the realisation of investments to the Investment Manager. Assets are realised as part of the ongoing management of the portfolio including rebalancing of assets in response to changing market conditions and to meet the cashflow needs of the Trustee.

Valuation and Pricing of units

4.12 Fund units are valued and priced on a weekly basis. A single price is used for members' purchases and sales.

5

Investment Strategy: RCF

Investment Objectives

- **Return Objective**
  To deliver a return equal to the Sterling Overnight Interest Average (SONIA) rate consistent with the preservation of capital.
- **Risk Objective**
  To minimise the risk of capital loss.
- **RI Objective**
  Net Zero carbon emissions by 2050, consistent with the Paris Climate Agreement, and at least half of the portfolio's net asset value in investments which support the Trustee's RI beliefs by the end of 2021.

5.1 The RCF Investment Objectives are set and reviewed by the Trustee with the primary consideration of minimising the risk of capital loss.

5.2 The Return Objective is specified in the guidelines to the IMA agreed with the Investment Manager. The Investment Manager is tasked with investing the assets to deliver the Return Objective consistent with the Risk Objective and the RI Objective.

Investment Strategy

5.3 The RCF typically invests in money market funds, cash deposits and **short-dated bonds**.

5.4 The Trustee has set the Investment Manager guidelines, including permissible ranges for each kind of investment, which are set out in detail in the IMA. The Investment Manager adjusts the balance of investments in the portfolio in response to evolving market conditions and ensures that:

- it stays within the guidelines;
- it is appropriate to achieving the Return Objective, Risk Objective and RI Objective; and
- there is sufficient liquidity to meet cashflow and derivative requirements.

5.5 The majority of assets held are readily realisable which is intended to provide for sufficient liquidity to meet members' purchases and sales and to manage the derivatives.

5.6 The Trustee delegates assessment of the expected return on investments to the Investment Manager. This is one of the factors taken into account by the Investment Manager when selecting the balance of assets to target the Return Objective.

5.7 The Trustee delegates decisions around the realisation of investments to the Investment Manager. Assets are realised as part of the ongoing management of the portfolio, including rebalancing of assets in response to changing market conditions and to meet the cashflow needs of the Trustee.

Valuation and Pricing of units

5.8 **Fund units** are valued and priced on a weekly basis. A single price is used for members' purchases and sales.

Short-dated bonds
Investments in government or corporate bonds (loans to the government or companies) which are due to be repaid within five years.

Fund units
Investment funds are divided into units. Each unit is an equal part of the value of the fund. We use members' and employers' contributions to buy these units.

Single-priced funds
Funds that are bought and sold at the same price on a dealing day (a day when the stock exchange is open for business) – as opposed to 'dual-priced' funds which have a buying ('offer') price and a selling ('bid') price.

6

Investment Risks

Member Risks

6.1 The key risk to members is not meeting their financial retirement objectives. This could be due to insufficient contributions into the Fund or a lack of growth in investment returns. The Trustee helps members manage the risk of not saving enough though providing information on the importance of saving for retirement.

6.2 The risk of the lack of investment returns is managed by the Trustee through the implementation of the Journey Path to help members manage the money they have invested. For members with many years to retirement, the Journey Path invests in the DGF which is a growth-focussed fund where members' assets are invested in a broad range of investments seeking to provide growth faster than inflation while managing risk.

6.3 In order to target long-term returns above inflation, investment risk needs to be taken. The Return Objective, Risk Objective, RI Objective and agreed delegations to the Investment Manager help to ensure the appropriate level of risk is taken throughout the member Journey Path.

6.4 Nevertheless, there are many reasons why investment returns could be lower than expected, with two potential causes being economic and market conditions. This is something which the Trustee cannot control but can help to manage against with the implementation of the agreed investment strategy.

6.5 The Trustee regularly reviews the Fund's investment strategy. The Investment Manager regularly reviews the portfolio composition to ensure its composition remains appropriate.

Portfolio Risks

6.7 **Concentration risk:** This is the risk of underperformance due to an investment having an overly large adverse impact on the return. This risk is managed by the Investment Manager who operates to guidelines that ensure the assets are spread across a range of investments.

6.8 **Counterparty risk:** This is the risk of loss caused by the portfolio trading with a financial institution that defaults on its obligations. This risk is managed by the Investment Manager through the selection process of the financial institutions the Trustee contracts with and regular monitoring of the exposures.

6.9 **Credit risk:** This is the risk of loss arising from the default on expected cashflows. This risk is managed by the Investment Manager who operates within guidelines which set out diversification and credit limits.

6.10 **Currency risk:** This is the risk of loss arising from the falling value of overseas investments due to the strengthening of GBP. This risk is managed by the Investment Manager who operates to guidelines which set out the permissible level of non-GBP exposure within each Fund.

6.11 **Leverage risk:** This is the risk that the value of the portfolio (or individual positions) will fall faster than it (or they) would without the use of leverage. The use of leverage requires increased collateral and cash management processes to support the derivatives and increased credit analysis of counterparties and exchanges. In addition, the cost of the leverage may exceed the return from the leveraged instruments. The amount of leverage and its usage is defined in the IMA. The Investment Manager is responsible for managing this risk.

6.12 **Liquidity risk:** This is the risk that there is a shortfall in easily accessible assets to meet the immediate cashflow needs. This risk is managed by the Investment Manager who operates to guidelines which require a sufficient level of liquid assets in each Fund to provide for members' likely withdrawals, taking in account flows into the Trust and monitoring the requirements for derivative positions.

Other Risks

6.13 **Operational risks:** This is the risk of loss caused as a result of, but not limited to, fraud, acts of negligence or lack of suitable processes. It is managed through agreements with each service provider which are monitored regularly by the Trustee. Before the appointment of any new service provider, due diligence is undertaken. Furthermore, NPL as the Trust Manager, together with the Trustee, undertakes an annual review of all key service providers. The key service providers with operational risk are Custodian and Administrator, the Investment Manager, NPL and Mercer.

6.14 **Valuation risk:** This is the risk that investments are not valued properly, and Fund unit prices are incorrect. This risk is managed by through the selection process and regular monitoring of the Administrator, investing in assets which are quoted, and requiring the Investment Manager and Administrator to have clear valuation policies in place for those that assets which are not quoted.

7

Investment Adviser

Arrangements

7.1 The Trustee has appointed Redington Ltd as their Investment Adviser. The Investment Adviser will advise the Trustee on whether the assets of the Trust are invested in accordance with the policies set out in this Statement and the requirements of sections 34, 35 and 36 of the Pensions Act 1995. The Trustee may also engage with them to undertake discrete projects.

Fees

7.2 The fees paid to the Investment Adviser are based on either a time cost basis (based on time spent) or on a fixed cost, depending on the type of work involved.

Review

7.3 Fees are reviewed annually. The appointment is reviewed periodically during the year through the Supplier Management Board and a formal review takes place every three years. As part of this review process the Trustee determines that the Investment Adviser is providing value for members.

8

Arrangements with the Investment Manager

Arrangements

8.1 The Trustee reviews the investment objectives and contract terms of the Investment Manager, including financial incentives, to ensure consistency with the IMA and this Statement. The Investment Manager is incentivised to align its investment strategies with the Trustee's policies set out in the Statement through the terms of the IMA and the investment objectives set by the Trustee.

8.2 The review is conducted at the appointment process and on an ongoing basis.

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

Portfolio turn-over costs
The costs of buying and selling units in an investment fund.

Reporting

8.4 The Investment Committee and the Trustee receive regular reports from the Investment Manager detailing performance and progress against the Return Objective, the Risk Objective and the RI Objective, together with other information such as the portfolio turnover costs (ie fees and expenses, including transaction costs) incurred in managing the investments which are assessed and monitored against the expected level.

8.5 The Investment Committee meets with the Investment Manager on a regular basis to review Fund performance against its objectives, focusing on longer-term outcomes. The review includes specific consideration of how the Investment Manager has implemented the investment strategy consistent with the IMA and this Statement.

8.6 The Investment Manager is responsible for ensuring any third-party asset manager is aligned with the IMA and this Statement at the time of appointment or explaining why this is not the case. They are also required to report back on any areas of potential divergence between the Trustee's policies on an ongoing basis, including their own.

8.7 The Investment Manager is also required to provide information, at least annually, on how it takes financial and non-financial performance into consideration, including (but not limited to) detailing its engagement activities with investee companies, where relevant. Performance in the medium to long term can be improved where asset managers (i) make decisions based on assessment about medium to long-term financial and non-financial performance of an issuer of debt or shares; and (ii) engage with issuers of debt or shares. The Trustee has delegated responsibility for ensuring this to the Investment Manager and will monitor the Investment Manager's performance in this regard.

8.8 As part of the review, stewardship policies and voting records are reviewed (and discussed with the third-party asset managers) at least annually by the Investment Manager, who will collate the qualitative and quantitative information required to allow the Trustee to review these each year. The Trustee will challenge any arrangements or stewardship practices that do not align with their RI approach.

Fees

8.9 The Investment Manager is paid on a percentage of assets basis as set out in the IMA. The Investment Manager is not permitted to receive remuneration from other sources, such as commissions, the spread between buying and selling price of units in the Fund or exit charges.

Review

8.10 Fees are reviewed annually. The appointment is reviewed periodically during the year through the Trustee's Supplier Manager Board and a formal review takes place every three years. The review focusses on the long-term, rather than short-term, performance and this provides an incentive for the Investment Manager to do the same. As part of this review process the Trustee determines that the Investment Manager is providing value for members.

Appendix A
Advisers

Investment Adviser:

Redington Ltd

Legal Adviser:

Eversheds Sutherland

Appendix B

Service Providers

Trust Custodian and Trust Administrator:

Bank of New York Mellon Corporation

Investment Manager:

Cardano Risk Management Ltd (CRML)

Master Trust Scheme Administrator:

Mercer

Trust Manager:

NOW: Pensions Limited

NOW: Pensions
The future is now

Information correct as at May 2021. NP/D0036/05/2021.
nowpensions.com +44 (0)330 100 3334.