NOW: Pensions

The future is now

Statement of Investment Principles

Adopted by the Trustees
25th September 2019

automatic enrolment

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NOW: Pensions Trust

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Joanne Segars
Chair of Board of Trustees

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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 request and is made available to the investment manager(s). 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 but may delegate certain decisions to investment managers. 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 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, including preparing, maintaining and periodically revising this Statement.

2.5 The Trustee has entered into an investment management agreement with Cardano Risk Management Limited (the Investment Manager) under which the Trustee has appointed the Investment Manager as its primary fund manager and has delegated to the Investment Manager all day to day investment functions, subject to regular monitoring and review.

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 such advice is required, the Trustee would seek it from its investment adviser who is appropriately qualified.

Section 3: Investment strategy

Objectives

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 members of the Trust, taking into account their age and planned retirement date.

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 investment beliefs:

- The appropriate measure for a successful investment strategy is the ability to maximize retirement payouts in real terms.
- The level of investment risk taken should be appropriate with a view to obtaining satisfactory returns, whilst protecting members to a large extent from significant reductions in the value of their pension account. This is achieved by diversifying the investments and by using various techniques to mitigate risk.

Investment strategy

3.3 The determination of an appropriate 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 simple approach to pension savings 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:

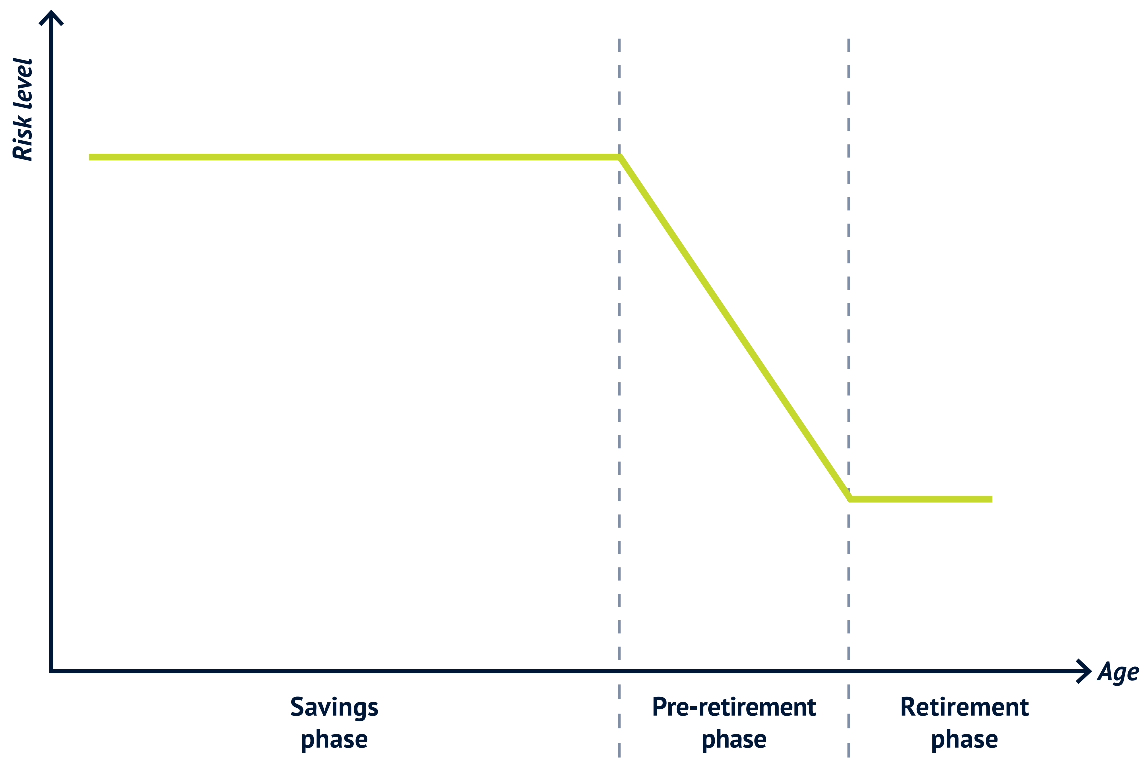
Section 3: Investment strategy

Continued...

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.

3.4.2 **Pre-retirement phase:** Pre-retirement phase: A period of ten years leading to the planned retirement date, 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.



Section 3:
Investment strategy

Continued...

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 their term to retirement:

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

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

3.5.1 The Diversified Growth Fund 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: 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.

Section 3: Investment strategy

Continued...

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

3.6 The majority of assets held will be 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 accordance with the same strategies and in the same funds as are the normal contributions paid into the Trust.

Investment Choice

3.8 The Trustee believes that the benefits of providing a unified investment strategy, tailored to the planned retirement date of each member, outweighs the benefits of offering to members a wider choice of funds. The Trustee has therefore selected the Investment Manager to provide the required investment funds, as described above.

Responsible Investment

3.9 The Trustee has a long-term time horizon for the portfolio and therefore 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. This is the approach that has been adopted by the Trustee when determining the investment strategy for the default investment fund. There are no other investment funds available to members.

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

3.12 The Trustee monitors how Cardano integrates ESG into its investment process focussing on those areas where ESG has a material impact on the financial risk and / or return characteristics of the investment.

Section 3: Investment strategy

Continued...

3.13 The Trustee does not ordinarily take the views of individual members and beneficiaries, including (but not limited to) their views in relation to governance, social and environmental impact, into account when making investment decisions. However, the Trustee may canvas the opinion of individual members from time to time.

3.14 The execution of the Trustee's investment strategy is achieved predominantly through derivative instruments related to global market indices. This approach results in limited opportunity to hold individual stocks and integrate ESG factors, which impacts the implementation of the Trustee's policy on voting and engagement, which is set out below.

3.15 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to Cardano, where applicable. Where Cardano invest assets in third party funds, Cardano will engage with the managers of these funds regarding their voting records and level of engagement with the underlying investments of the fund that is being invested in, where this is expected to have meaningful impact. The Trustee expects the investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

Investment Management and Adviser Fees

3.16 Investment Manager fees are 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.

3.17 In the interests of full transparency the Investment Manager will not be permitted to receive remuneration from other sources, such as commissions, spread between buying and selling price of units in the Fund, exit charges etc.

3.18 Fees to investment advisers are paid either on a time cost basis based on time spent or on fixed levels of fees that may be agreed for discrete pieces of work undertaken.

Pricing of units

3.19 Units allocated to members in the three investment funds to represent their share of the funds will be single-priced, i.e. on any given trading date there will be one price used for both the purchase and sale of units.

Section 4: Risk management

4.1 The key risks are that members will have insufficient funds at retirement or an income that does not meet their expectations or an exposure to undue volatility in expected retirement outcome. 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 C).

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 traditional strategy invested 60% in equities and 40% in bonds. The Trustee may decide to deviate from the target risk level.

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

4.3 These measures do not make the investment policy free of risk but endeavour to balance the need for risk control with the requirement to have assets which are likely to achieve the required performance target.

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.

Review of Investment Management

5.4 The Trustee and Director of Investment of the Employer Representative will review strategies and results with the Investment Manager every quarter.

5.5 The Board has established an Investment Committee to monitor and review the performance of the Investment Manager and review this Statement of Investment Principles and report to the Board. The Investment Manager will attend Trustee meetings to present annual investment reports and be held to account for the performance, and will attend quarterly Investment Committee meetings.

5.6 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.

5.7 The Trustee has relevant expertise or takes advice from appropriate investment advisers who have the knowledge and experience required to review the investments.

5.8 The Trustee holds the Investment Manager accountable to give effect to the principles in this statement so far as is reasonably practical.

Appendix A: Current Advisers and Service Providers

cardano

Investment Manager:
Cardano Risk Management Ltd (CRML)

REDINGTON

Investment Adviser:
Redington Ltd

JLT

DC Plan Administrator:
JLT Benefit Solutions Ltd

Sackers

Legal Adviser:
Sacker & Partners LLP

BNY MELLON

Custodian:
Bank of New York Mellon Corporation

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: Government and other bonds with low credit risk and interest rate derivatives. Bonds with credit risk or in funds or derivatives containing similar exposures. Equities, equity derivatives or in funds containing similar investments. Government and other index-linked bonds with low credit risk and inflation and interest rate derivatives. Commodity derivatives or funds containing similar investments.
Retirement Countdown Fund (Series i)	**SONIA**	This fund aims to achieve returns in line with wholesale money market short-term interest rates. The fund provides security and liquidity for members in the run up to retirement.	The fund invests in cash deposits, money market funds, short-dated bonds with low credit risk and in interest rate derivatives.
Retirement Countdown Fund (Series ii)	**SONIA**	This fund aims to achieve returns in line with wholesale money market short-term interest rates. The fund provides security and liquidity for members in the run up to retirement.	The fund invests in cash deposits, money market funds, short-dated bonds with low credit risk and in interest rate derivatives.

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

Appendix C: Risk Management Principles

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

Currency risk:

Currency risk 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.

Appendix D:
Limits on allocation to risk factors

The target levels for the distribution of risk between the four risk factors for the Diversified Growth Fund are set by the Trustee. The share of total risk relating to each factor should target the following levels and must be within the listed boundaries:

NOW: 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.

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Information correct as at September 2019

NOW: Pensions Ltd. Registered office: 6 Bevis Marks, London, EC3A 7BA.
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