Statement of Investment Principles for the NMR Overseas Pension Fund – Defined Contribution Section

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the NMR Overseas Pension Fund ("the Trustee") on various matters governing decisions about the investments of the NMR Overseas Pension Fund – Defined Contribution Section ("the DC Section"). This SIP replaces all wording relating to DC Section of the previous SIP dated July 2019.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the DC Section's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments including the need for diversification given the circumstances of the DC Section and the principles contained in this SIP. The Trustee has consulted with the relevant employer in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy or in the demographic profile of the relevant members in respect of the DC Section and at least once every three years.

- **Appendix 1** sets out details of the DC Section's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustee policy towards risk appetite, capacity, measurement and management.

2. Investment objectives

The Trustee's primary objective for the DC Section of the Fund is to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile of the DC Section and recognising the rules around how members must access their pots in retirement; and
- a default investment option that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions.

The objective of the default option is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement.

3. Investment strategy

The Trustee has made available a range of investment funds for members. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved. If a member does not choose an investment option, their account will be invested into the default option, which is managed as a "lifestyle" strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age).

At retirement, members have the option to take up to 30% of their pot as a lump sum. The balance of a member's pot, after any lump sum payment, must be taken in the form of an annuity. The default option was designed to be in the best interests of the majority of the members based on the rules around how they must take their pots in retirement. As such, the default option targets annuity at retirement. In the initial growth phase the default option is invested to target a return significantly above inflation, and then in the 10 years before retirement, it switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members taking an annuity.

Details of the funds underlying the default strategy as well as other self-select options available to members are set out in the DC Section Investment Policy Implementation Document ("IPID").

4. Considerations in setting the investment arrangements

When deciding how to invest the DC Section's assets, the Trustee considers several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate.

In determining the investment arrangements for the DC Section, the Trustee considered:

- the best interests of all members and beneficiaries;
- the rules around how members must take their pots in retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifestyle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification within the default strategy and other lifestyle options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;

- the need for appropriate diversification within the other investment options offered to members;
- any other considerations which the Trustee considers financially material over the periods until members' retirement, or any other timeframe which the Trustee believes to be appropriate; and
- the Trustee investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in the DC Section IPID.

The Trustee has not entered into a contract with a platform provider. There is a direct relationship between the DC Section and the underlying investment managers of the DC Section investment funds.

The investment managers' primary role is the day-to-day investment management of the DC Section's investments.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices because all the DC Section's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the DC Section meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the DC Section's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the DC Section within the portfolios that they manage, and in considerations relating to the liquidity of investments. The Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

7. Financially material considerations and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the DC Section and its members.

The Trustee believes that environmental, social and governance factors can impact long-term performance and consequently expect the investment manager to take steps to ensure these factors are explicitly incorporated into the investment decision making process where appropriate. This principle applies to all asset classes although a greater emphasis is given to actively managed listed equities. The Trustees expect their investment managers to consider a range of sustainable investment factors in their delegated responsibility for the Fund's assets, such as, but not limited to, those arising from ESG considerations, including climate change.

The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice. The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate. The Trustees undertake regular review to ensure the policy is being carried out effectively and in line with evolving good practice.

To the extent that the managers have documented their approach to financially material considerations the Trustee expects the managers to comply with their documented approach in practice. The Fund's investment consultants consider the managers' approach to financially material considerations as part of its overall research process.

The Trustee monitors reporting from its managers and advisors on a periodic basis to ensure these issues are assessed and taken account of in the investment decision making process as appropriate. Should the Trustee determine that a manager's approach to voting and engagement, stewardship or financially material ESG considerations is not appropriate, the Trustee will raise this with the relevant manager and, if not remedied, will ultimately consider terminating their appointment.

The Trustee has decided not to take into account non-financial material considerations in the selection, retention and realisation of investments, including (but not limited to) the views of members and beneficiaries of the Fund.

8. Voting and engagement

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

The Trustee recognises that active ownership (including the exercise of voting rights and engagement) can protect and enhance the value of investments. The Trustee's policy is to delegate responsibility for active ownership of investments (including the exercise of voting rights, engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations) to the investment managers. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries. The investment managers are encouraged to operate in accordance with the guidance outlined in the Stewardship Code and to report their adherence to The Stewardship Code under the 'comply or explain' principle on an annual basis.

SIP signed for and on behalf of the Trustee of the NMR Overseas Pension Fund - Defined Contribution Section**:**

Signed: ____

Investment governance, responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the DC Section. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the DC Section overall. The Trustee's investment powers are set out within the DC Section's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing, monitoring, reviewing and dismissing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

The Trustee has delegated consideration of certain investment matters to a Pension Governance and Administration committee ("PGAC"), and the Trustee and PGAC understand the different areas where each party makes decisions, provides oversight or recommendations. The terms of reference for the PGAC detail clearly its responsibilities.

2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on a suitable fund range and default strategy for the DC Section, and how material changes to legislation or within the DC Section's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

4. Fee structures

The Trustee recognises that the provision of investment management to the DC Section results in a range of charges to be met, directly or indirectly, by deduction from the DC Section's assets.

The Trustee has agreed Terms of Business with the DC Section's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receives fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the manager's general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers. See also Section 5 of the SIP.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the DC Section.

However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the DC Section's investments, investment providers and professional advisers from time to time. See Section 5 of the SIP. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the Fund's employer

When reviewing matters regarding the DC Section's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.

Policy towards risk

The Trustee considers that there are several different types of investment risk that are important to manage and monitor. These include, but are not limited to:

8.1. Risk of inadequate returns

As members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the default strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made the default option a "lifestyle" strategy.

8.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the DC Section's assets. The Trustee believes that the DC Section's assets and default strategy are adequately diversified between different asset classes and within each asset class and the DC options provide a suitably diversified range for members to choose from. This was a key consideration when determining the DC Section's investment arrangements and is monitored by the Trustee on a regular basis.

8.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual. The Trustee monitors the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

8.4. Illiquidity/marketability risk

This is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustee manages this risk by only using pooled funds with daily dealing within the default strategy and diversifying the strategy across different types of investment.

8.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the DC Section's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

8.6. Risk from excessive charges

If the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. The Trustee is comfortable that the charges applicable to the DC Section are in line with market practice and assess regularly whether these represent good value for members.

8.7. Credit risk

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

The DC Section is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.

8.8. Currency risk

Whilst the majority of the currency exposure of the DC Section's assets is to Sterling, the DC Section is subject to currency risk because some of the DC Section's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate.

8.9. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the DC Section, and takes these into consideration as far as practical in setting the DC Section's investment arrangements as part of its assessment of the other aspects of the DC Section's Integrated Risk Management framework.