

# NMR Pension Fund

## Statement of Investment Principles – DB Section

(December 2022)

### Introduction

- 1 This document is the Statement of Investment Principles ('SIP') made by the Trustees of the NMR Pension Fund (the 'Fund') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 2 The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustees took written advice from the Fund's Investment Consultant and consulted NM Rothschild & Sons Ltd (the 'Employer'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.
- 3 Fund details:
  - a The Fund contains two sections: a defined benefit arrangement (the DB Section) and a defined contribution arrangement (the DC Section). This document covers the DB Section and a separate statement has been prepared for the DC Section.
  - b Both Sections operate for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The DB Section is closed to new members.
- 4 The Fund is a Registered Pension Fund for the purposes of the Finance Act 2004.

### Investment Objectives

- 5 Investment Objectives:
  - a The acquisition of suitable assets of appropriate liquidity which will generate a total return comprising of income and/or capital growth to meet, together with new contributions from the Employer, the cost of current and future benefits which the Fund provides.
  - b To limit the risk of the assets failing to meet the liabilities over the long term and in relation to the scheme-specific funding measure introduced by the Pensions Act 2004, in the shorter term.
  - c To manage the long-term costs of running the Fund, taking into account the funding level and whilst having regard to the objectives a. and b.
- 6 In determining the Fund's investment objectives, the Trustees have had regard for the historical rates of return earned on the various asset classes available for investment, as well

as forward-looking assumptions of the expected future returns on those asset classes and the expected short-term volatility of the asset classes.

- 7 The Trustees will review these investment objectives regularly and amend as appropriate.

### **Investment strategy**

- 8 The Trustees have received advice to determine an appropriate investment strategy for the Fund. The Trustees have ultimate responsibility for decision making on investment managers. A Pensions Investment Subcommittee ("PISC") considers most of the investment matters and makes recommendations to the Trustees, where decisions are required to be taken by the Trustees. The responsibilities of the PISC are captured within a separate terms of reference.

- 9 The investment strategy makes use of three key types of investments:

- using a range of instruments that provide a match to changes in liability values
- a diversified range of return-seeking assets, including (but not limited to) equities, corporate bonds, property, private equity, infrastructure, emerging market debt and hedge funds
- both actively and passively managed portfolios.

- 10 The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Fund's investment objectives.

- 11 The Fund will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

- 12 The Trustees will monitor the liability profile of the Fund and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.

- 13 The expected return of an investment will be monitored regularly and will be directly related to the Fund's investment objectives.

- 14 The Trustees' policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Fund's overall investments, where possible. The Trustees, together with the Fund's administrators, will hold sufficient cash to meet benefit and other payment obligations.

### **Investment managers**

- 15 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Fund competently.

- 16 Alignment between a manager's management of the Fund's assets and the Trustee's policies and objectives is a fundamental part of the appointment process of a new manager. Before investing, the Trustee will seek to understand the manager's approach to sustainable

- investment (including engagement). When investing in a pooled investment vehicle, the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement.
- 17 The Trustees appoint their investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.
  - 18 The Trustees are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Trustees will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Fund's long-term objectives, and an acceptable level of risk. As part of this process, the Trustees have delegated the detailed monitoring of the Fund's investment managers to its Investment Consultant.
  - 19 For most of the Fund's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. As part of this process, the Trustees expect the investment managers to consider relevant matters including capital structure of investee companies, actual and potential conflicts and other stakeholders. The Trustees invest in certain strategies where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Fund's allocation to such mandates is determined in the context of the Fund's overall objectives.
  - 20 With the exception of retained investments, the Trustees have delegated responsibility for the selection, retention and realisation of investments to the investment managers.
  - 21 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.
  - 22 The Trustees review the costs incurred in managing the Fund's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

## Other matters

- 23 The Trustees believe that environmental, social and corporate governance factors can impact long term performance, and consequently expect the investment managers 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 undertake a regular review to ensure the policy is being carried out effectively and in line with evolving good practice. The Trustees have decided not to take into account non-financial material considerations in designing and implementing the investment strategy, including (but not limited to) the views of members and beneficiaries of the Fund.

- 24 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.
- 25 The Trustees recognise that active ownership (including the exercise of voting rights and engagement) can protect and enhance the value of investments. The Trustees' policy is to delegate responsibility for active ownership (including the exercise of voting rights) of investments to the investment managers. The investment managers are encouraged to become signatories to the Principles for Responsible Investment ('PRI') and to report their adherence to the PRI on an annual basis.
- 26 To the extent that the managers have documented their approach to social, environmental and ethical issues the Trustees expect the managers to comply with their documented approach in practice. The Fund's investment consultants consider the managers' approach to social, environmental and ethical issues as part of its overall research process. To maintain alignment, managers are provided with the most recent version of the Fund's Statement of Investment Principles on an annual basis and are required to explicitly confirm that the Scheme's assets are managed in line with the Trustee's policies as outlined in that statement.
- 27 Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.
- 28 The Trustees review the costs incurred in managing the Fund's assets regularly through annual MiFID II reporting together with the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.
- 29 The Trustees have developed a Responsible Investment (RI) Policy for the Fund, formalising the Trustees' beliefs on RI matters and setting out in more detail how RI considerations will be embedded in the running of the Fund. This policy was produced with input from the Fund's investment advisors and the Sponsor company covering both DB and DC investment.
- 30 The Fund provides a facility for members to pay AVCs into the Fund to enhance their benefits at retirement. Members are offered a range of funds in which to invest their AVC payments. The Trustees' objective is to provide a range of funds which will provide a suitable long-term return for members, consistent with members' reasonable expectations.
- 31 The Trustees recognises a number of risks involved in the investment of the Fund's assets:
- Solvency risk and mismatching risk:
    - are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current investment policy
    - are managed through the asset allocation strategy and through ongoing triennial actuarial valuations.
  - Investment manager risk:

- is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives
- is managed through the diversification of the Fund's assets across a range of investment managers with different styles.
- Currency risk:
  - is measured by the level of concentration of any one currency leading to the risk of an adverse influence on investment values arising from currency movements
  - is managed through diversification of the Fund's assets across a range of currencies and the Fund's currency hedging programme.
- Interest rate risk:
  - is measured by comparing the likely movement in the Fund's liabilities and assets due to movements in interest rates.
  - is managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Fund's assets to match movements in the value of the liabilities due to interest rates.
- Inflation risk:
  - is measured by comparing the likely movement in the Fund's liabilities and assets due to movements in inflation.
  - is managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Fund's assets to match movements in the value of the liabilities due to inflation.
- Political risk:
  - is measured by the level of concentration of any one economy leading to the risk of an adverse influence on investment values arising from political intervention
  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- Custodial risk:
  - is measured by assessing the custodian's ability to settle trades on time and provide secure safekeeping of the assets under custody
  - is managed through the agreement with the third-party Custodian and ongoing monitoring of the custodial arrangements. Restrictions are applied to who can authorise the transfer of cash and the account to which transfers can be made.
- Counterparty risk:
  - is measured through the level of concentration with any one counterparty leading to the risk of an adverse influence on investment values arising from a default on obligations
  - is managed through the investment manager guidelines and internal procedures as appropriate.

- Liquidity risk:
  - is measured by the level of cashflow required by the Fund over a specified period.
  - is managed by the Fund's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- Inappropriate investments:
  - are managed through constraints on the use of derivatives, gearing, specific asset limits and other restrictions.
- Sponsor risk:
  - is measured by the level of ability and willingness of the sponsor to support the continuation of the Fund and to make good any current or future deficit.
  - is managed by assessing the interaction between the Fund and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor.
- Derivatives risk
  - Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.
  - Liquidity risk – the risk that changes to market conditions could lead to the Fund needing to post additional collateral at short notice in order to maintain the Fund's liability hedging arrangements. This risk is mitigated through the guidelines provided to the Fund's LDI manager and the monitoring of the LDI portfolio undertaken by the Trustee.
  - Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustees for the backing assets and the investment managers' asset management capabilities.
  - Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.
  - Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustees take appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.
  - The Trustees are also aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis.