Nifco UK Retirement Benefits Scheme
Statement of Investment Principles (September 2020)

1. Background

This Statement of Investment Principles (‘the statement’) sets down the principles governing decisions about investments for the Nifco UK Retirement Benefits Scheme (‘the Scheme’). This statement has been prepared in accordance with the requirements of Section 35 and 36 of the Pensions Act 1995, as amended and The Occupational Pension Schemes (Investment) Regulations 2005.

In preparing this statement, the Trustees have consulted with Nifco UK limited (‘the Sponsoring Employer’) and obtained and considered advice from Isio Group Limited on the appropriateness of this statement. Isio Group Limited is authorised and regulated by the Financial Conduct Authority for investment business activities.

In accordance with The Occupational Pension Schemes (Investment) Regulations 2005 the statement is reviewed:

- at least every three years; and
- without any delay after any significant change in investment policy.

2. Investment objective

The Trustees invest the assets of the Scheme with the aim of ensuring that all members’ accrued benefits can be paid. The Scheme’s funding target is specified in the Statement of Funding Principles, and the Scheme’s funding position will be reviewed annually to assess the position relative to the funding target and whether the investment policy remains appropriate to the Scheme’s circumstances.

The Scheme’s investment objective is to achieve, over the long term, a return on the investments which is consistent with, or better than, the long-term assumptions made by the Trustees in determining the funding of the Scheme. The investment objective is presently to achieve a return of around 3.5% per annum above the return on UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Scheme’s liabilities).

3. Investment strategy

The Scheme’s present strategy is to invest according to the following broad asset allocation:

Asset Class	Proportion %	Expected Return (relative to fixed interest gilts) %
Diversified Growth	35.0	3.5
Liability Driven Investment (“LDI”)	65.0	3.5*
TOTAL	100.0	3.5

*The use of derivatives within the Scheme’s LDI fund frees up cash which can be used to implement both an LDI and a Diversified Growth strategy within the fund. The LDI fund therefore aims to incur the same long term expected return as the Diversified Growth fund and at the same time hedge the Scheme’s liabilities. The level of interest rate and inflation hedging for the Scheme on a Technical Provisions basis as at 30 September 2020 is c.86%.

The expected returns shown in the above table represent long-term expectations of asset classes as a whole. Short-term returns in some asset classes may exhibit considerable variability.

The above investment strategy was derived from careful consideration of the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of contributions required to fund the Scheme, and also the strength of the sponsor's covenant. The Trustees considered the merits of a range of asset classes, including various "alternative assets".

The Trustees recognise that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by:

- Investing in assets which are expected to perform in excess of the liabilities over the long term;
- Investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities; and
- Investing in assets which aim to move in line with the Scheme's liabilities.

The assets of the Scheme consist predominantly of investments admitted to trading on regulated markets.

Following the closure of the Scheme the Trustees will look to review the investment strategy in due course to reflect the changing circumstances of the Scheme.

4. Investment mandates

The Trustees have appointed Aberdeen Standard Investments to manage the assets of the Scheme. The fund manager is regulated under the Financial Services and Markets Act 2000. Their performance objectives are tabled below:

Investment Mandate	Asset Class	Proportion %	Performance Objective	Fees
Aberdeen Standard Investments Global Absolute Return Strategy ("GARS")	Diversified Growth	35.0	3 Month LIBOR + 5.0%	Base Fee: 0.45% p.a. Performance fee: 10% of Fund performance in excess of 6 month GBP LIBOR +2.0%[2]
Aberdeen Standard Investments Integrated Liability Plus Solutions ("ILPS")	Liability Driven Investment ("LDI")	65.0	3 Month LIBOR + 5.0%[1]	0.70% p.a.

[1]The use of derivatives within the Scheme's LDI fund frees up cash which can be used to implement both an LDI and a Diversified Growth strategy within the fund. The LDI fund therefore aims to incur the same long term performance objective as the Diversified Growth fund and at the same time hedge the Scheme's liabilities.

[2] The Base Fee plus Performance Fee is capped at 0.85% p.a. The fee will be calculated annually on the 31 December using three year annualised rolling Fund performance gross of fees, ending on that date. This will determine the fee payable for the 12 month period beginning on the following 1 April.

Specific details on each of the mandates are as follows:

<u>The Aberdeen Standard Investments Global Absolute Return Strategies (“GARS”)</u>

The Aberdeen Standard Investments Global Absolute Return Strategies (“GARS”) fund is a multi-asset fund which seeks to achieve long term equity-type returns, but with less volatility than global equities. The fund invests in a combination of return seeking assets, including alternative assets (such as currency and commodities) which are selected within a pooled fund at the discretion of the fund manager. Standard Life implement a significant number of investment ideas through the use of liquid derivatives due to their cost effective and efficient nature to access markets.

<u>The Aberdeen Standard Investments Integrated Liability Plus Solutions (“ILPS”)</u>

The Aberdeen Standard Investments Integrated Liability Plus Solutions (“ILPS”) fund provides a hedge against the interest rate and inflation rate sensitivity of the Scheme’s liabilities. It also aims to incur the same long term expected return as GARS. Standard Life use derivatives within the ILPS fund which frees up cash and enables Standard Life to pursue both an LDI and a Diversified Growth strategy within ILPS. The level of interest rate and inflation hedging for the Scheme on a Technical Provisions basis as at 30 September 2016, when the strategy was implemented, is c.86%. In doing so, the Scheme has hedged a large portion of risk which is specific to the liabilities.

The Scheme’s actual asset allocation to LDI may deviate from the table above due to market movements. It may not be appropriate to rebalance the assets as doing so would change the hedge ratio. Thus the Trustees will monitor and rebalance (where possible) the Scheme’s asset allocation excluding LDI and will take any corrective actions at their discretion. Rebalancing of asset allocations will be affected by cashflows, where possible, to avoid unnecessary transaction costs. The transfer of assets/cash between asset classes will be used to rebalance where cashflow is insufficient.

All decisions about the day-to-day management of the assets have been delegated to the fund manager via a written agreement. This delegation includes decisions about:

- Realisation of investments;
- Social, environmental and ethical considerations in the selection, retention and realisation of investments; and
- The exercise of rights (including voting rights) attaching to the investments.

The Trustees take fund managers’ policies in the above respects into account when selecting and monitoring managers. The fund manager is expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

The fund manager’s remuneration is based upon a percentage value of the assets under management. The fees have been negotiated to be competitive.

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the fund manager. The custodian provides safekeeping for the assets, and performs all associated administrative duties such as the collection of dividends.

The Trustees monitor the overall allocation between the asset classes and will take any corrective actions at their discretion. Rebalancing of asset allocations will be affected by cashflows, where possible, to avoid unnecessary transaction costs. The transfer of assets/cash between asset classes will be used to rebalance where cashflow is insufficient.

5. Risks, Financially Material Considerations and Financial Matters

A non-exhaustive list of risks that the Trustees have considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	• When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge c.86% of these risks on a technical provisions basis.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge an appropriate level of currency risk in the context of the wider risk of the Fund.

6. Financially Material Considerations

The Trustees consider that financially material considerations, including environmental, social and corporate governance (ESG) factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks, and can have a material impact on investment risk and return outcomes, over a time horizon which is the length of time that members' retirement benefits require to be funded by the investments in the Scheme.

The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have delegated day to day management of the Scheme's assets to investment managers. Consequently, the Trustee recognises that its ability to directly influence the actions of investee companies is limited.

The Trustees therefore expect the Scheme's investment managers to take ESG factors, including climate change, into account when exercising the rights attaching to the Scheme's investments, and in setting their policies in relation to the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them. The Trustees will review any reports which the investment managers produce concerning their approach to financially material considerations and discuss further with Isio Group Limited where appropriate.

7. Non Financial Matters (Including Member's Views)

The views of members and other beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life, are not taken into account in the selection, retention and realisation of investments within the Scheme. The Trustees will review its policy towards this as appropriate.

8. Voting and Engagement

The Trustees believe that good stewardship helps create and preserve value for companies and markets as a whole. The Trustees policy in relation to the exercise of rights (including voting rights) attaching to investments should be exercised by each investment manager to whom the day to day responsibilities have been delegated. The Trustees believe that this will ultimately be in the best interests of the Scheme and undertaking engagement activities in respect of investments, is that the Trustee wishes to encourage best practice in terms of stewardship.

The Trustees recognise that, for the reasons outlined above, its ability to directly influence stewardship matters is limited. The Trustees therefore expects their investment managers to discharge their responsibilities in respect of investee companies in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

9. Monitoring

The Trustees consider how ESG, climate change and stewardship is integrated within the processes of its investment managers.

Should the Trustees seek to appoint a new manager, it will appoint a manager who satisfies the following criteria (unless there is a good reason why the manager does not satisfy each criteria):

- Responsible Investment (RI) Policy/ Framework
- Implemented via Investment Process
- A track record of using engagement and any voting rights to manage ESG factors
- ESG specific reporting
- UN PRI Signatory

10. Employer-related investments

The Trustees do not hold any direct employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005. It is the policy of the Trustees to ensure that the value of the employer-related investments held does not exceed 5% of the overall value of the Scheme's assets. Compliance with this policy is monitored on a quarterly basis.

11. Direct investments

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to a fund manager through a written contract. These include the pooled vehicles available for members' AVCs through arrangements with Aviva . When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

12. Governance

The Trustees of the Scheme make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of fund managers.

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees' investment advisers, Isio Group Limited, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience. The investment adviser's remuneration may be a fixed fee or based on time worked, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

13. Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustees consulted the sponsoring employer and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in investment policy.

Appendix A – Investment Manager Arrangements

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustees policies.	• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees policies.	• The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. o For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.