Nifco UK Retirement Benefits Scheme – Statement of Investment Principles – August 2021

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.

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 1.1% 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).

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) %
Multi-Asset Credit	25.0	2.8
Low Risk Credit	25.0	1.5
Liability Driven Investment ("LDI")	50.0	0.0*
TOTAL	100.0	1.1

* The level of interest rate and inflation hedging for the Scheme on a Technical Provisions basis as at 30 June 2021 is c.100%.

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.

Investment mandates

The Trustees have appointed Insight Investment and J.P. Morgan Asset Management to manage the assets of the Scheme. The fund managers are regulated under the Financial Services and Markets Act 2000. Their performance objectives are tabled below:

Investment Mandate	Asset Class	Proportion %	Performance Objective	Fees
J.P. Morgan Unconstrained Bond Fund	Multi-Asset Credit	25.0	3 Month LIBOR + 2.5% gross of fees over a market cycle	Base Fee: 0.40% p.a.
Insight Investment High Grade ABS Fund	Low Risk Credit	25.0	3 Month SONIA + 1.15%	0.35% p.a.
Insight Investment Enhanced Selection LDI	LDI	50.0	Move in line with liability value hedged	0.10% p.a.[1]

[1]Based on liability value hedged

Specific details on each of the mandates are as follows:

<u>J.P. Morgan Unconstrained Bond Fund</u>
The fund is a multi-asset credit fund that uses a combination of credit, rates, and other macro views to generate returns. The fund is flexible and has the ability to allocate to a variety of different credit markets, but historically has made significant allocations to Corporate Investment Grade, Corporate High Yield, and Mortgage-Backed Securities.

<u>Insight Investment High Grade ABS Fund</u>
The fund invests in diversified high-grade asset-backed securities, with a bias towards prime residential mortgage-backed securities and a geographic focus towards Europe.

<u>Insight Investment Enhanced Selection LDI</u>
<u>The fund provides a hedge against the interest rate and inflation rate sensitivity of the Scheme's liabilities. The fund dynamically allocated between gilts and swaps to form the most cost-effective method of hedging the liabilities. The level of interest rate and inflation hedging for the Scheme on a Technical Provisions basis as at 30 June 2021, is 100%.</u>

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.

Risk

A non-exhaustive list of risks that the Trustees have considered and sought to manage is shown below. Financially material considerations and non financial matters are considered in paragraphs 9 and 10 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.100% of these risks on a technical provisions basis.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due

	market value of the investment.	(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.

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 KPMG LLP where appropriate.

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.

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.

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

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.

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.

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.

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.

Signature:...

Signature:...

Date:...