Nationwide Pension Fund Statement of Investment Principles ("SIP")

The Cheshire & Derbyshire Section

31 March 2021

Nationwide
Pension Fund

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The Cheshire & Derbyshire Section.
As at 31 March 2021

This Statement of Investment Principles relates to the Cheshire & Derbyshire (C&D) Section of the Nationwide Pension Fund. The other section of the Nationwide Pension Fund, the Nationwide Section, is addressed in a separate Statement of Investment Principles.

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy and will delegate the responsibility for selection of specific investments to appointed investment managers, which may include an insurance company or companies. The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

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1. Investment Objectives

1.1. The Trustee aims to invest the assets of the Section prudently to ensure that members receive the benefits they were promised.

1.2. To meet this promise, the long-term objective of the Section is to maintain full funding on a Low Dependency basis.

1.3. In setting the investment policy, the Trustee has consulted the Society and will consult the Society before revising this document. However, the ultimate power and responsibility for deciding the investment policy lies solely with the Trustee.

2. Strategy and Strategic Asset Allocation

2.1. The Section's investment strategy and the strategic asset allocation are reviewed periodically to ensure that they are appropriate for the circumstances and the objectives of the Section.

2.2. At the date of this SIP, the asset allocation strategy chosen to meet the objective is set out in the table below.

STRATEGIC ASSET ALLOCATION AS AT 31 MARCH 2021 ***(on a net asset basis)***	
Asset Class	Target Weighting %
Matching Assets	90-95
Return Seeking Assets	5-10
Cash	0-2

2.3. The asset allocation strategy is predicated on maintaining a low dependency funding position where the long-term investment portfolio returns gilts +0.5% per annum. The inherent hedging achieved by the current strategy is designed to maintain the low dependency funding level.

2.4. The target weightings may be exceeded to allow the Trustee to take occasional tactical asset allocation decisions, and to recognise that occasionally some flexibility may be required. This allows the timing of implementation of investment decisions, which have already been decided upon, to respond to short-term market conditions not providing for the target asset returns or sufficient opportunities to invest on an appropriate basis.

2.5. The overall portfolio is monitored against the target weightings on a weekly basis and rebalanced if either sub-portfolio is not within the specified range.

2.6. The Matching Portfolio will be a portfolio of assets whose sensitivity to inflation and interest rates are broadly equal to those of the Section's liabilities.

2.7. When choosing the Section's planned asset allocation strategy, the Trustee considered written advice from their investment advisers and addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.
- The covenant of the sponsor.
- The liquidity requirements of the pension liabilities that are payable.

2.8. Investments in derivative instruments may be made only insofar as they:

- contribute to a reduction of risks, or
- facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), or
- are managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

2.9. Note the Section has achieved a full hedge of interest rate and inflation risk.

3. Risk Management

3.1. The Trustee recognises that the key risk to the Fund is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk").

3.2. The Trustee has identified several risks, which have the potential to cause deterioration in the Fund's funding level and therefore contribute to funding risk. These are as follows:

Asset-liability or mismatching risk

The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors.

Controls & mitigants: The Trustee and its advisers considered this mismatching risk when setting the investment strategy and it is intended that this risk will be reduced by diversifying the return seeking assets exposure and by increasing the matching asset exposure, in physical or derivative form. The Trustee is mindful of longevity risk, and will explore, from time to time, the possibility of hedging this risk. The Trustees review longevity assumptions at each triennial valuation and ensure these are appropriate.

Credit risk

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet a contractual obligation.

Controls & mitigants: This is mitigated by restricting assets to AAA or AA ratings which are high quality with a very low risk of default.

Investment manager mandates always include individual exposure limits. For bespoke mandates the investment manager will operate within agreed counterparty limits in terms of exposure and credit-worthiness, particularly with regards to derivative contracts.

Currency risk

The risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. It is measured by the exposure to assets denominated in foreign currency and the risk that adverse movements in these currencies may impact the Section.

Controls & mitigants: All the investments for this Section are made in Sterling hedged share classes. As a result, the Trustees do not have any explicit currency risk.

Custodian risk

Custodian risk is assessed by reviewing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

Controls & mitigants: This is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers on a regular basis.

Diversification risk

The failure to spread the investment risk effectively across a range of asset classes and geographies.

Controls & mitigants: The Trustee and its advisers considered this risk when setting the Section's investment strategy. This is managed by considering the Section's investment policy specifically in relation to diversification through risk budgeting tools from time to time.

Inflation risk

The risk that the value or future cash flows of a financial asset will fluctuate because of changes in rates of inflation, and specifically the risk that changes to the Section's liabilities due to inflation will not be mirrored in its assets.

Controls & mitigants: Assets are held as part of the matching assets strategy to mitigate mismatching risk because of their sensitivity to inflation. If inflation rises the value of the matching assets will rise, and help match the resulting increase in actuarial liabilities.

Interest rate risk

The risk that the discounted present value of future cash flows of a financial asset will fluctuate because of changes in market interest rates. Specifically, the risk that changes to the discounted present value of the Fund's liabilities due to changes in market interest rates (which are used by the Fund's Actuary in his setting of an appropriate discount rate) will not be mirrored in its assets.

Controls & mitigants: Assets that generate this risk are held as part of the matching assets strategy to mitigate mismatching risk because of their sensitivity to interest rates. If interest rates fall the value of the matching assets will rise, matching the increase in actuarial liabilities.

Liquidity risk

The risk of insufficient liquid assets to meet the Fund's liabilities as they fall due.

Controls & mitigants: This is managed by the Section's administrators who assess the level of cash held in the short term in order to pay benefits thus limiting the impact of the cash flow requirements on the investment policy.

Manager risk

Failure by the fund managers to preserve the capital invested and achieve the rate of investment return assumed by the Trustee.

Controls & mitigants: This risk is considered by the Trustee and its advisers on the initial appointment of the fund managers and on an ongoing basis thereafter. This is managed by appointing mostly passive funds for the Section and by monitoring the actual deviation of returns relative to the benchmark.

Risk	Description / Controls & mitigants
Other price risks	The risk that the current value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. **Controls & mitigants:** The Trustee manage this exposure to overall price movements by holding a variety of passive funds for the Section which depend on a large number of different financial instruments.
Operational risk	The risk of fraud, poor advice or acts of negligence **Controls & mitigants:** The Trustee has sought to minimise such risk by ensuring that all advisers and third- party service providers are suitably qualified and experienced and managed by ensuring that suitable liability and compensation clauses are included in all contracts for professional services received.
Resourcing risk	**Controls & mitigants:** This is managed by employing the CIO team, and outsourcing other responsibilities to third parties (e.g. Investment Consultant, Custodian) where necessary. The overall level of resourcing is kept under on-going review by the IFC.
Sponsor risk	The possibility that the Fund's sponsoring employer enters insolvency. **Controls & mitigants:** The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy. This is managed by assessing the interaction between the Section 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. The consequences of this risk are diminished since the Section has achieved full funding on a Low-Dependency basis and is, therefore, less reliant on sponsor contributions.
Environmental, Social & Governance (ESG) risk	The risk of the extent which ESG factors are not appropriately reflected in asset prices and/or not considered in the investment decision making processes, leading to underperformance relative to targets. **Controls & mitigants:** This is managed by engaging with asset managers regularly on their approach to integrating ESG factors in their investment decision making processes (for further detail, refer to the Responsible Investing policy).

3.3. Due to the complex and interrelated nature of these risks, the Trustee considers most of the risks on a qualitative basis as part of each formal investment strategy review (normally triennially).

3.4. However, the Trustee recognises that some risks may be modelled explicitly during such reviews.

Risk Monitoring

3.5. In choosing the initial asset allocation, the Trustee recognises the associated level of risk relative to the liabilities and has considered the scheme specific funding requirements introduced by the Pensions Act 2004.

3.6. The Trustee's policy is to monitor, where possible, the risks to achieving their long-term objectives on a quarterly basis. The Trustee receives regular reports from their Investment Consultant showing:

- Performance versus the Section's investment benchmark as measured by the Custodian.
- Performance of individual fund managers versus their respective targets as measured by the Custodian.
- The amount of interest rate and inflation protection.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.
- The overall level and structure of the interest rate and inflation hedges.

4. Implementation

4.1. The Trustee has delegated the day-to-day oversight and monitoring of the Section's assets to the Nationwide CIO team. The relationship is governed by an Investment Services Agreement (ISA) between the Trustee and Nationwide.

4.2. The Section's investments are currently managed externally through pooled funds managed by Legal and General. The overall asset allocation of the Section resulting from the pooled funds is monitored by the CIO team, Investment and Funding Committee and the Investment Consultant.

4.3. The Fund's Investment Consultant provides an advisory service to the Trustee, which addresses the investment strategy and its implementation. The Trustee appoints an Investment Consultant following a selection process every three to five years.

4.4. The Investment Consultant is paid a pre-agreed fixed retainer fee for 'core' service with an incremental performance fee payable if specific service thresholds are met. Additional projects are paid on a time cost basis or a project basis. This structure was chosen to ensure that cost-effective, independent advice is received.

5. Additional Voluntary Contributions

5.1. Prior to 1 April 2021, members were also able to pay additional voluntary contributions (AVCs) to enhance their benefits payable on retirement. AVCs are separate to the Section's assets and are invested at the members' risk, in line with defined contribution plans.

5.2. The Trustee's objective is to provide members with a range of funds for these AVCs to be invested in consistent with members' reasonable expectations.

5.3. In keeping with the policy for the main Fund assets, the Trustee's policy is to seek to achieve the objective through offering a suitable mix of real and monetary assets. The Fund offerings are reviewed on a biennial basis.

6. Responsible Investing

6.1. In setting the Fund's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

6.2. The Trustee believes that to fulfil this commitment and to protect and enhance the value of the Fund's investments, it must act as a responsible steward of the assets in which the Fund invests.

6.3. Further detail is provided in the Responsible Investing Policy which directly supports the SIP, including information on Economic, Social and Governance considerations.

7. Governance

7.1. The Trustee is responsible for the investment of the Section's assets. The Trustee takes some decision-making in this area and delegates others, considering whether the Trustee Board members have both the appropriate training and expert advice to make an informed decision.

7.2. The Trustee has established a decision-making structure which is summarised below. Detailed descriptions outlining the corresponding structures of the below parties can be found in the Terms of Reference for the IFC, the Investment Services Agreement for the CIO team and the Contract for Services agreed with the Investment Consultant.

Trustee responsibilities

- Make ongoing decisions relevant to the operational principles of the Section's investment strategy.
- Select planned asset allocation.
- Select investment consultants.
- Appoint and delegate responsibilities to the IFC.
- Consider recommendations from the IFC.

Investment & Funding Committee responsibilities

- Monitor investment advisers and fund managers.
- Draft the Fund's Statement of Investment Principles for the Trustee Board to approve.
- Make recommendations and report any areas of concern to the Trustee board from time to time in respect of the investment management arrangements of the Section.
- Take such steps as are necessary to implement investment decisions that reflect the strategic investment objectives of the Section.
- Ensure the rebalancing of the Section's invested assets in order to align the Section's asset allocation with the Strategic Asset Allocation benchmark.
- Provide a process, which reassures the Trustee that effective monitoring occurs and that the IC is properly accountable to the Trustee.
- Set and regularly review the Responsible Investing Policy of the Section.

Chief Investment Officer Team responsibilities

- Monitor and report to the IFC and the Trustee Board on the performance of managers and liaise with the custodian, investment consultant and managers as required.
- Consider and appoint new managers in asset classes that form part of the agreed asset allocation and investment strategy of the Fund, in accordance with IFC decisions.
- Day to day oversight of the Section's managers, transition manager, custodian and investment consultant.
- Implement any IFC approved rebalancing of the investment portfolio to take account of the agreed asset allocation and investment strategy.
- Arrange consolidated reporting of investments to the IFC.
- Implement the Section's Responsible Investing Policy and monitor ongoing adherence to the policy.

Investment Consultant responsibilities

- Advise on all aspects of the investment of the Section's assets, including strategic and tactical allocation; implementation of the strategy; tactical rebalancing and providing support to the CIO team in its activities.
- Monitor the maintenance of the Funding Level.
- Advise on this statement.
- Provide required training to the Trustees and the CIO team.
- Provide quarterly performance and risk reporting.
- Monitor impact of changes in investment allocation and strategy including the value at risk (DaR).

Fund Manager responsibilities

- Operate within the terms of this statement and their written contracts.
- Select individual investments with regard to their suitability and diversification.
- Advise the Trustee on suitability of the indices in the benchmark.

7.3. Under Section 36(3) of the Pensions Act 1995 (as amended), before investing in any manner, trustees must obtain and consider proper advice from their Investment Consultant on the question whether the investment is satisfactory having regard to the requirements of regulations under subsection (2), so far as relating to the suitability of investments, and to the principles contained in the statement under section 35. It is generally accepted that 'retained investments' includes "managed", "balanced" or "pooled" funds where trustees have selected a single fund and where the manager has no discretion to invest in other vehicles.

7.4. The Trustee's policy is to review the retained investments and to obtain written advice about them at regular intervals (normally annually). These include vehicles available for members' AVCs. When deciding whether to make any new direct investments, the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

7.5. The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

7.6. The Trustee's Investment Consultant has the knowledge and experience required under the Pensions Act 1995.

7.7. The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

7.8. Fund managers are remunerated on a percentage of fund basis and additionally, in some cases, on a performance basis. The level of remuneration paid to fund managers is reviewed periodically by the Trustee against market rates to ensure the fund managers' interests are aligned with those of the Fund.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Society over any changes to the SIP.

Appendix I: Glossary of Defined Terms

Buy-out is the Scheme Actuary's estimated cost of securing scheme benefits (for example buying-out with an insurer).
Chief Investment Officer ("CIO team") is the pension investment team based within the Society's Treasury Division.

Contract for Services is the document that specifies the activities to be undertaken by the Investment Consultant.

Custodian is Northern Trust Corporation or any subsequent third party appointed by the Trustee to provide safekeeping for all the Fund's assets and perform the associated administrative duties, such as the collection of interest and dividends and dealing with corporate actions.

Deficit at Risk (DaR) is a measure of the risk of the size of the deficit between the value of the Fund's asset allocation and its liabilities on a low dependency basis that the Fund may experience in any three years under normal market conditions.

Fund is the Nationwide Section of the Nationwide Pension Fund

Investment Consultant is Aon Solutions UK Limited or any other third party appointed by the Trustee to provide investment advice about and monitoring of the Fund's investment strategy, asset allocation, portfolio construction, fund managers and other investment related activities requested by the Trustee.

Investment Objective is as outlined in the opening statement of this Statement of Investment Principles.

Investment Services Agreement is the document between the Trustee and the Society that specifies the activities to be undertaken by the CIO team.

Low Dependency is for the purposes of this Statement of Investment Principles defined as the value of the liabilities discounted using a UK Government yield curve, plus an additional margin at each spot rate of interest on the curve of 0.2%. There are other technical factors behind the calculations of the liabilities, for example the treatment of implied inflation and in these respects these calculations reflect those used for the Technical Provisions. The Low Dependency methodology will be reviewed from time to time.

Matching Portfolio means the sub-section of the Section's assets whose interest rate and inflation sensitivity is broadly equal to that of the Section's liabilities.

Society is the Nationwide Building Society or any successor in title that still remains the sponsoring entity of the Fund.

Section is the section of the Nationwide Pension Fund relating to the pension funds of the Cheshire and Derbyshire (C&D) building societies.

Technical Provisions is for the purpose of this Statement of Investment Principles, defined as the value of liabilities discounted using a UK Government yield curve, plus an additional margin at each spot rate of interest on the curve. This additional margin will initially be 1.25% in respect of the pre-retirement discount rate and 1% in respect of the post-retirement discount rate, although this will need be adjusted as part of the regular review process as the proportion of the Fund's investments in return-seeking assets declines over time as the de-risking plan progresses. There are other technical factors behind the calculations of the liabilities on the technical provisions basis, for example, the treatment of implied inflation. The exact details of the technical provisions basis are set out in the Statement of Funding Principles, a document that is updated following each triennial valuation.

Terms of Reference relates to the respective documents that govern the activities, obligations, responsibilities and duties of the IFC; as reviewed and agreed periodically by the Trustee.

Transition Manager is Russell Implementation Services Limited or any other third party appointed by the Trustee to provide implementation and transition services related to the asset allocation and individual fund mangers.

Trustee is Nationwide Pension Fund Trustee Limited or any successor that takes on the capacity as trustee for the Nationwide Pension Fund (the “Fund”)

UK Stewardship Code is the set of principles released by the Financial Reporting Council directed at institutional investors who hold voting rights in UK companies to be active and engage in corporate governance in the interest of their beneficiaries.

Appendix II: List of Reference Documents

- Contract for Services between the Trustee and the Investment Consultant
- Investment Services Agreement between the Trustee and the Society
- Responsible Investing Policy
- Statement of Funding Principles
- Terms of Reference of the Investment and Funding Committee

These documents are all included in the Fund's Register of Investment Documents.