

Nationwide Pension Fund

The Nationwide Section: Statement of Investment Principles (“SIP”)

13th of February 2025

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

This Statement of Investment Principles is produced to meet the requirements of the Pensions Act 1995 (as amended), the Occupational Pension Schemes (Investment) Regulations 2005, The Pensions Regulator’s General Code, 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 Section 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. Over time this means the Trustee seeks to reduce investment risk, providing more certainty that the benefits will be met in full.
- 1.2. To achieve this aim, the Trustee seeks to not only meet the statutory requirements around funding on a Technical Provisions basis but has established a more prudent aspirational Trustee Funding Target.
- 1.3. In addition to liabilities, factors considered in setting the Trustee Funding Target include:
 - The strength of the sponsor covenant.
 - A de-risking plan to achieve the Trustee Funding Target.
 - A low-risk Destination Portfolio to maintain the funding level once the Trustee Funding Target has been reached.
- 1.4. As funding on a Technical Provisions basis exceeds 100% then the statutory requirement to agree a Recovery Plan with the Society does not currently apply
- 1.5. In setting these investment objectives, the Trustee has consulted the Society and will consult the Society before revising this document. The risk capacity and appetite of the Sponsor and Trustee are considered, however, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

2. Strategy

- 2.1. The Trustee has set a long-term Trustee Funding Target. The Trustee monitors the outcomes from the investment strategy, the projected progress towards funding against this target, and the strength of the sponsor covenant to determine actions to deliver the Trustee Funding Target.
- 2.2. The Trustee monitors the funding level of the Section relative to Technical Provisions, the Trustee Funding Target, and Solvency.
- 2.3. There is a strong (but not perfect) positive correlation between the Technical Provisions, the Trustee Funding Target, and Solvency funding levels and the Trustee recognises that over time the relationship between these measurements of liabilities will change.
- 2.4. The plan is that the Section will de-risk towards its Trustee Funding Target and the eventual target of the de-risking process will be a Destination Portfolio.
- 2.5. The Trustee will consult with the Society on this document and upon any proposed de-risking.
- 2.6. The parties expected to be involved in the monitoring and implementation process are as follows:
 - the Investment and Funding Committee (“IFC”) on behalf of the Trustee
 - the Society’s Pension Risk Management team
 - The Joint Pension Risk Forum – a regular meeting between the Society and the Trustee
 - the Chief Investment Officer team (“CIO Team”)
 - the Investment Consultant to the Trustee

- the Actuarial Adviser to the Trustee
- the Transition Manager to the Trustee
- the Liability-Driven Investment (“LDI”) Manager

3. Strategic asset allocation

- 3.1. The Section’s investment strategy and strategic asset allocation are reviewed periodically to ensure that they are appropriate for the circumstances and objectives of the Section. This review includes an assessment of the environmental, social and governance (ESG) opportunities and risks faced by the Fund.
- 3.2. The Trustee will monitor the actual asset allocation versus the operational allocation ranges outlined in the table below.
- 3.3. The operational ranges allow the Trustee to manage the strategic asset allocation, within the specified limits, preventing constant rebalancing.
- 3.4. The de-risking plan reduces the weighting of the return-seeking assets and correspondingly increases the weighting of matching assets based on the funding level of the Section and the availability of adequate LDI collateral.
- 3.5. At the date of this SIP, the asset allocation strategy selected to meet the objectives is set out in the table below.

Asset class	Operational ranges
Matching assets	50 - 80%
Government and supranational bonds	35 - 65%
Alternative matching assets	5 - 15%
Return seeking assets	20 - 50%
Equities	0 - 10%
Credit	0 - 12.5%
Illiquid portfolio	10 - 50%
Cash	0 - 2%
	Operational limits
LDI leverage	2.5x
Repurchase agreements and total return swaps	<£1.8bn

- 3.6. The IFC may mandate the CIO Team and the Investment Consultant to adopt a dynamic asset allocation framework during periods of transition whereby the asset allocation may not be within specified limits.
- 3.7. There is a small allocation to cash for liquidity management purposes to meet expected outflows on a day-to-day basis. Repurchase agreements also provide additional cash management capability.
- 3.8. The Trustee can temporarily diverge from the operational ranges to allow the taking of occasional tactical asset allocations or to allow for market dislocation. This allows flexibility in the implementation of ratified investment decisions to respond to short-term market volatility.
- 3.9. The planned asset allocation strategy is designed to achieve the Trustee Funding Target. It is based on investment return assumptions and assumes that fund management can be expected to add value.
- 3.10. However, the Trustee recognises the potential volatility in returns, particularly relative to the Section’s liabilities, and the risk that fund managers do not achieve the targets set.

- 3.11. Additionally, the Trustee recognises the potential for ESG risks to cause further volatility in returns, particularly due to the long-term nature of these risks alongside the unknowable outcomes of certain ESG risks such as climate change.
- 3.12. When choosing the Section’s planned asset allocation strategy, the Trustee considered written advice from their Investment Consultant and, in doing so, 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.
- 3.13. Investments in derivative instruments may be made if they are expected to:
- 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
 - be managed to avoid excessive risk exposure to a single counterparty and to other derivative operations.
- 3.14. The Section hedges its exposure to interest rate and inflation risk and as the Funding Ratio of the Section improves through asset performance, hedging will be transacted to maintain a high hedge ratio subject to sufficient collateral being available to support the increased hedging and having sufficient cash to meet cashflow requirements.

4. Risk management

- 4.1. The Trustee recognises that the key risk to the Section is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”).
- 4.2. The Trustee has identified several risks which have the potential to cause material deterioration in the Section’s funding level and therefore contribute to funding risk. These are as follows:

Risk	Controls and mitigants
Concentration	Return seeking assets are geographically, sector, and risk diverse as concentration could result in disproportionate impacts from an idiosyncratic or systemic issue. New investments are assessed on how they fit into the current portfolio to manage concentration risk.
Credit	Declining creditworthiness can increase default risk, resulting in lost asset value or service functionality. Assets and providers are regularly monitored, and bespoke investment mandates will operate within agreed counterparty limits while some assets/contracts may have security such as collateral.
Currency	Movements in exchange rates can result in foreign denominated assets suffering substantial valuation falls in Sterling terms. Investments denominated in foreign

		currencies are partially hedged to reduce the volatility of non-Sterling asset valuations.
Environmental, and Governance	Social,	The effects of climate and other environmental changes and/or regulatory steps to mitigate such changes could decrease investment asset values. Additionally, some social factors (such as organisations' workforce practices, supply chain and modern slavery issues, as well as inclusion and diversity) may also impact investment risks and returns. Pre-investment due diligence and ongoing engagement with asset managers takes place to reduce this risk. Further detail is set out in the Responsible Investing policy, which is available here .
Inflation		Changes in inflation will affect the value of future liabilities, this is hedged to reduce volatility.
Interest rates		Changes in interest rate will affect the present-day value of assets that need to be held to meet future liabilities, this is hedged to reduce volatility.
Liquidity		Cash balances are monitored daily, and a highly liquid collateral waterfall is maintained to help ensure cash is readily available.
Longevity		Increases in life expectancy will increase the length of time liabilities are paid, this is partially hedged and opportunities to increase hedging are monitored.
Operational		The loss of service from third parties could affect operational control of assets or trading functionality. The Trustee ensures that all advisors and third-party service providers are suitably qualified and experienced. Liability and compensation clauses are included in contracts where appropriate and regular service reviews are taken.
Sponsor		A weakened covenant or resolution event would reduce Fund security. This risk is considered when setting the investment strategy and is mitigated by the Contingent Asset. The creditworthiness of the sponsor and the size of the pension liability is also assessed relative to several sponsor financial strength metrics. The Trustee has appointed an external covenant advisor to provide independent analysis and advice.

- 4.3. 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).
- 4.4. However, the Trustee recognises that some risks may be modelled explicitly during such reviews. A quantitative assessment is taken into consideration when assessing a new asset class and how it fits within the overall portfolio.

Risk monitoring

- 4.5. In choosing the initial asset allocation to meet the investment objective, the Trustee recognises the associated level of risk compared to the liabilities and has considered the scheme specific funding requirements introduced by the Pensions Act 2004.
- 4.6. The Trustee monitors this by analysing the 3-year Deficit at Risk (DaR), as calculated on a Technical Provisions basis, and the 3-year Value at Risk (VaR), as calculated on the

Trustee Funding Target basis, relative to the current asset allocation strategy at a 95% confidence level with a view to taking action that reduces the DaR/VaR as a percentage of assets over time. The Trustee will review the overall DaR/VaR levels when de-risking activity has been implemented to consider the reduced risk within the portfolio.

- 4.7. The Trustee's policy is to monitor these risks regularly. The Trustee receives reports showing:
- Actual funding level versus the Trustee Funding Target.
 - Performance versus the Section investment objective as measured by the Custodian.
 - Monitoring of DaR and VaR to target a broad reduction over time as a percentage of assets.
 - Performance of individual fund managers versus their respective targets as measured by the Custodian.
 - 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, inflation and longevity hedges.
 - The latest valuation of the Contingent Asset.
 - The Section's liquidity and collateral position.

5. Implementation

- 5.1. The Trustee has delegated the day-to-day oversight and monitoring of the Section's assets and liquidity to the CIO Team. The relationship is governed by a Services Agreement (SA) between the Trustee and the Society.
- 5.2. Most of the Section's investments are managed externally via specialist managers through segregated arrangements, pooled funds and limited partnerships.
- 5.3. The Section also has direct holdings, mainly in alternative investments such as real estate, where only the management functions are sub-contracted out to the external specialist manager.
- 5.4. The Section'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.
- 5.5. The Investment Consultant is paid a pre-agreed fixed retainer fee for 'core' services with an incremental performance fee payable if specific service thresholds are met. Additional projects are paid on a time and cost basis or a project basis. This structure was chosen to ensure that cost-effective, independent advice is received.

6. Additional voluntary contributions

- 6.1. 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 main Section and are invested at the members' risk, as with defined contribution plans.
- 6.2. The Trustee's objective is to provide members with a range of funds for these AVCs to be invested in, which will offer a suitable long-term return, consistent with members' reasonable expectations.
- 6.3. In keeping with the policy for the main Section assets, the Trustee's policy is to seek to achieve the objective through offering a suitable mix of real and monetary assets.

7. Responsible investing

- 7.1. In setting the Section's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Section and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.
- 7.2. The Trustee believes that to fulfil this commitment and to protect and enhance the value of the Section's investments, it must act as a responsible steward of the assets in which the Section invests.
- 7.3. Further detail is set out in the Responsible Investing Policy which forms part of the SIP and provides detailed guidance on the Trustee's approach to arrangements with asset managers and environmental, social and governance considerations.

8. Governance

- 8.1. The Trustee is responsible for the investment of the Section's assets. The Trustee makes some decisions in this area and delegates others, based on whether the Trustee Board members have both the appropriate training and expert advice to make an informed decision.
- 8.2. The Trustee is aware of the impact that diversity and inclusion can have on investment outcomes and undertakes training sessions and participates in industry events to maintain appropriate knowledge and understanding in this regard.
- 8.3. The Trustee has established a decision-making structure which is summarised below. Detailed descriptions outlining the corresponding structures of the parties below can be found in the Terms of Reference for the IFC, the 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.
- Make recommendations to the Trustee Board on the appointment of Investment Consultants.
- Review the Section'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.
- From time to time, if required and possible, initiate a rebalancing of the Section's invested assets to align the Section's asset allocation more closely with the operational ranges.

- Provide a process which reassures the Trustee that effective monitoring occurs, and that the Investment Consultant is properly accountable to the Trustee.
- Consult with the sponsor to the extent required by law.
- 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 Section, in accordance with IFC decisions.
- Oversee on a day-to-day basis 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.
- Negotiate and execute the Section's agreed liability-driven investment ("LDI") strategy.
- Review currency hedging position in the light of changing global markets and consider various global economic and market trends and their impact of the Section's assets.
- Arrange consolidated reporting of investments to the IFC.
- Manage Section cash balances, liquidity, leverage levels and collateral positions.
- Collaborate with the Society in the production of monthly MI dashboards.
- Record decision-making processes of the IFC regarding private market managers and other investment recommendations from the Investment Consultant.
- 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 assets, including strategic and tactical allocation; implementation of the strategy; tactical rebalancing and providing support to the CIO Team in its activities.
- Provide a comprehensive annual review and health check of the investment strategy and de-risking plan and make recommendations for changes to the strategy.
- Advise on asset allocation positioning versus the asset operational ranges and investment objectives.
- Monitor the progress of the Section against the Trustee Funding Target and other measures where appropriate.
- Provide risk reporting and scenario analysis of the whole Section.
- Provide interest rate, inflation and longevity hedge analysis and recommendations on hedging strategies.
- Provide manager reporting return and risk analysis alongside any changes in the overall rating of the manager.
- Advise on the Statement of Investment Principles and the Trustee's investment policies.

- Provide required training to the Trustee and the CIO Team.
- Source fund managers and investment opportunities.
- Monitor impact of changes in investment allocation and strategy, including the deficit 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.
- 8.4. 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.
- 8.5. 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.
- 8.6. 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
- 8.7. The Trustee's Investment Consultant has the knowledge and experience required under the Pensions Act 1995.
- 8.8. 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.
- 8.9. 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 Section.

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

Actuarial Adviser is Keith Poulson of Aon Solutions UK Limited or any subsequent third party appointed by the Trustee to provide actuarial services.

Alternative Matching Assets (AMA) are long dated investments that are typically inflation linked and are used instead of index-linked gilts to diversify risk and enhance returns.

Chief Investment Officer Team (“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 Section’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 risk measure relating to the surplus/deficit between the value of the Section’s assets and its liabilities on a Technical Provisions basis.

Destination Portfolio is an asset portfolio agreed by the Trustees from time to time once the Trustee Funding Target has been achieved, which largely matches the characteristics of the Section’s liabilities and allows a margin to cover the Section’s costs as well as risk factors such as benefit caps and collars and any unhedged longevity risk.

Environmental, Social and Governance (ESG) is a set of criteria measuring a business’s impact on society, the environment, and how transparent and accountable it is.

Fund is the Nationwide Pension Fund. The Fund is formed of two sections: the Nationwide Section and the Cheshire and Derbyshire Section.

Funding Ratio is the ratio of the value of the assets to the Trustee Funding Target basis of calculating the liabilities.

Investment Consultant is Aon Investments Limited or any other third party appointed by the Trustee to provide investment advice about and monitoring of the Section’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.

Liability-Driven Investment Manager (“LDI Manager”) is Insight Investment Management (Global) Limited or any subsequent third party appointed by the Trustee to provide investment management services that seek to hedge the Section’s liabilities and reduce risk.

Recovery Plan is the plan, to be agreed with the Society, that sets out the basis on which, with the support of the Society, the Section becomes fully funded on a Technical Provisions basis.

Return Seeking Assets are all assets within the Equity, Hedge Fund, and Illiquid Portfolio asset allocations and those assets within the Bond allocation that are not fixed rate or inflation linked gilts.

Section is the section of the Nationwide Pension Fund which does not relate to the pension funds of the Cheshire and Derbyshire (C&D) building societies.

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

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

Solvency is the Actuarial Adviser's estimated cost of securing scheme benefits (for example buying-out with an insurer).

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. 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 managers.

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

Trustee Funding Target is for the Section to be 109% funded based on the value of the liabilities discounted using a UK Government yield curve, plus an additional margin of 0.5%. This scaling to 109% accounts for an excess return that aims to cover the Section's costs and protect the liabilities against longevity and other risks. The Trustee Funding Target will be reviewed from time to time.

Value at Risk (VaR) is a risk measure relating to the surplus/deficit between the value of the Section's assets and its liabilities. It is considered on the Trustee Funding Target basis. VaR illustrates the change in surplus/deficit from a 1-in-20 downside event in 3 years' time, relative to the current surplus/deficit.