

NIGEN Pension Scheme

Statement of Investment Principles

September 2021

Statement of Investment Principles

The Trustee of the NIGEN Pension Scheme (“the Scheme”) has prepared this Statement of Investment Principles (“the SIP”) in accordance with the Pensions (Northern Ireland) Order 1995 (“the Order”) as amended and the Pensions (Northern Ireland) Order 2005, as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustee in respect of assets covering Defined Benefit liabilities and AVCs.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustee has:

- Obtained and considered the written advice from the Scheme’s Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the Employer.

Choosing investments

The Trustee sets the investment strategy and investment policies for the Scheme.

The Trustee has considered the Scheme’s liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustee relies on Investment Managers for the day-to-day management of the Scheme’s assets but retains control over all decisions made about the investments in which the Scheme invests.

Where Investment Managers are delegated discretion under Section 34 of the Order, the Investment Manager will exercise their investment powers in accordance with the Order, relevant and subsequent regulations, and this SIP.

The Trustee relies on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

The Trustee relies on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme’s entitlement within the pooled funds.

Investment objective and strategy

Investment objective

The Trustee has secured the accrued benefits of the members of the Scheme through the purchase of an insurance policy with insurer Aviva. This has been achieved through a buy-in arrangement whereby the insurer reimburses the Scheme for payments made to the members in return for a premium paid by the Scheme. The policy was inceptioned on 15 May 2019 and covers liabilities up to 31 December 2018.

The Scheme remains open for the active membership to continue to accrue benefits, and hence this is the only liability to be covered by the remaining assets (excluding the buy-in policy).

The Trustee has set the following objectives:

- To implement an investment strategy such that the remaining assets are sufficient to cover the cost of accruing benefits with no further contributions from the Sponsoring Employer.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long term costs of the Scheme.
- To adhere to the provisions contained within this SIP.

Investment strategy

The Trustee intends to meet the current investment objective by investing in a portfolio of assets that are expected to match the cost of future benefits as they are accrued.

The Trustee can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership.

The actual strategy adopted for the Scheme, including the allocation to different assets, and expected returns is set out in the Appendix.

Investment restrictions

The Trustee intends to adhere to the following restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Scheme's Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustee has identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Equity risk, Property risk, Currency risk, Credit risk, Interest rate risk, Inflation risk
- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- Implementation risks: Investment manager risk, Counterparty risk, Operational risk

These risks are measured and managed by the Trustee as follows:

- The Trustee has set an investment strategy that adheres to the contents of this SIP.
- The Trustee receives strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustee undertakes regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustee periodically assesses the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustee delegates the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustee considers the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustee utilises custodian relationships to ensure Scheme assets are held securely.
- The Trustee assesses whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

Realising investments

The Trustee recognises that assets may need to be realised to meet Scheme obligations at any time. The Trustee will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

The Trustee will from time to time agree a policy for sourcing cash from the investments as required. Further details are set out in the Appendix.

Range of assets

Based on the allocation set out in the Appendix, the Trustee considers the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in agreements and pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through asset allocation parameters set by the Trustee or governing the pooled funds in which the Scheme is invested.

The Trustee will ensure that the Scheme's assets are invested in regulated markets to maximise their security. Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Scheme. The Trustee expects engagement with management of the underlying issuers of debt and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail below, the Trustee also requires the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore makes decisions about the retention of Investment Managers, accordingly.

Investment Manager Arrangements

Review process

Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustee's investment policies. If there are concerns, the Trustee may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

Portfolio turnover

The Trustee requires the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Responsible investment

The Trustee has considered the approach to environmental, social and corporate governance (“ESG”) factors for the long-term time horizon of the Scheme and believe there can be financially material risks relating to them. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme’s Investment Managers. The Trustee requires the Scheme’s Investment Managers to take ESG and climate change risks into consideration within their decision-making, in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee will seek advice from the Investment Consultant on the extent to which their views on ESG and climate change risks may be taken into account in any future Investment Manager selection exercises. Furthermore, the Trustee, with the assistance of the Investment Consultant, will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustee’s requirements as set out in this Statement.

As the Scheme invests in pooled funds, the Trustee acknowledges that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustee has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme’s investments to the Investment Managers. The Trustee encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are misaligned with the Trustee’s expectation, then the Trustee may consider terminating the relationship with that Investment Manager.

When considering the selection, retention or realisation of investments, the Trustee has a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought, nor taken into account, the beneficiaries’ views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustee will review this policy if any beneficiary views are raised in future.

Section 35

The enclosed SIP has been prepared by the Trustee in accordance with S35 of the Pensions Act 1995 and will be reviewed at least every three years or immediately after any significant changes in investment policy. The Trustee has consulted with XPS Investment, acting in its capacity as the Scheme’s Investment Consultant, and have acted upon written advice when deciding the suitability of the enclosed strategy.

This SIP was agreed and adopted by the Trustee of the NIGEN Pension Scheme in September 2021.

Signed on behalf of the Trustee:

Signed on behalf of the Investment Consultant:

Signature:

Signature:

Name: **Chris Roberts**

Name:Jordan Harrison.....

Date: **09/09/2021**

Date:08/09/2021.....

This SIP is the responsibility of the Trustee. You must not use, copy or repeat any part of the SIP for commercial purposes without obtaining permission to do so in writing to us. We use material from third parties in preparing the SIP and although we try to ensure that all of the information is correct we do not give any express or implied warranty as to the accuracy of the material in the SIP and are not responsible, and do not accept and liability, for any error, omission or inaccuracy. We are not liable for any damages (including, without limitation, damages for loss of business or loss of profits) arising in contract, tort or otherwise from the use of or inability to use this SIP, or any material contained in it, or from any action or from any action or decision taken as a result of using it.

Appendix - Investment strategy

Overall strategy

The investment strategy of the Scheme (excluding the buy-in policy) is summarised in the table below.

| Asset class | Strategic allocation* | Expected return (above gilts pa) | Manager and fund | Objective | AMC (pa) |
|-------------------------|-----------------------|----------------------------------|--|--|--|
| Investment Grade Credit | 13% | 0.7% | Legal & General Buy and Maintain Credit Fund | To provide a combination of growth and income by trying to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit. | 0.15% |
| LDI | 1% | 0.0% | Legal & General 2030 Inflation Swap Fund | The aim of this fund is provide leveraged exposure to changes in inflation by investing in inflation swap contracts. | 0.14% |
| LDI | 2% | 0.0% | Legal & General 2035 Inflation Swap Fund | The aim of this fund is provide leveraged exposure to changes in inflation by investing in inflation swap contracts. | 0.14% |
| LDI | 42% | 0.0% | Legal & General Over 15 Year Index-Linked Gilts Fund | The investment objective of the fund is to track the performance of the Markit iBoxx £ Non-Gilts (ex BBB) Over 15 Years Index | 0.10% |
| Cash Fund | <1% | 0.0% | Legal & General Sterling Liquidity Fund | To provide diversified exposure and a competitive return in relation to 7 Day LIBID. | 0.125% on the first £5m, 0.10% on the next £5m, 0.075% on the next £20m, 0.05% thereafter. |
| Multi-Sector Credit | 41% | 1.9% | Apollo Total Return Fund | To provide returns on the upper range of the asset class alongside a healthy income projection. | 1.00%** |
| Total | 100% | | | | 0.48% |

*Transfer value activity will impact the level of hedging in place against future liabilities as the Scheme matures. As and when these events take place, the Trustee will look to recalibrate the hedge accordingly. *As such, the strategic allocation to LDI assets is flexible and will not require a SIP update for subsequent hedge recalibrations.*

**Additional operating expenses for the Apollo Total Return Fund fluctuate, with an upper cap of 40bps.

In addition to the above assets, the Trustee has secured the past service benefits for all members through the purchase of an insurance policy with insurer Aviva, inception date 15 May 2019 covering liabilities accrued up to 31 December 2018. This was achieved through a buy-in arrangement whereby the insurer reimburses the Scheme for payments made to the insured pensioners in return for a premium paid by the Scheme.

Rebalancing investments

The Scheme does not have any formal rebalancing arrangements in place. The Trustee will review the allocation as necessary and if required will instruct the Investment Managers to rebalance towards the strategic allocation.

Realising investments

Where assets need to be realised, the Trustee will consult with the Investment Consultant regarding the source and timing of disinvestments.

AVCs


The investment Funds are provided by Aviva Investors. Previously members were able to invest funds in the Aviva With-Profit Guaranteed (NU) Pension Standard Series 01 Fund however this Fund has been closed to new contributions. Members are permitted to invest their AVC contributions in the following AVC funds:

- Aviva With-Profit (NU) Pension Standard Series 01 Fund
- Aviva* Deposit Fund
- Aviva* European Fund
- Aviva* Gilt Fund
- Aviva* Global Bond Fund
- Aviva* Global Equity Fund
- Aviva* International Index Tracker Fund
- Aviva* Long Gilt Fund
- Aviva* Mixed Investment (0-35% Shares) Fund
- Aviva* Mixed Investment (40-85% Shares) Fund
- Aviva* Pacific Equity Fund
- Aviva* Property Fund

The Trustee will review the AVC providers, as well as the funds available, in the light of their performance on a periodic basis. Performance of these funds will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options.

The Trustee is aware that members' AVC funds are subject to the same risks faced by the Scheme's investments, such as inflation risk eroding real returns. In addition, AVC members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their AVC fund may fall in value. The Trustee considers that, in making a number of funds available, they provide these members with sufficient options to meet their reasonable expectations and to mitigate the risks faced.

* Formerly Norwich Union, legacy arrangement.



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XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

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