Nottinghamshire and District Miners Pension Scheme 1939

Statement of Investment Principles – August 2020 (replaces December 2019)

1. Introduction

The Trustees of the Nottinghamshire and District Miners Pension Scheme 1939 ("the Scheme") have prepared this Statement of Investment Principles ("the Statement") in order to record the Scheme's investment arrangements and rationale behind them. This Statement is designed to comply with the requirements of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005, as amended from time to time, and subsequent legislation. As required under the Act, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited.

Investment policy is considered to fall into three parts: the strategic management of the assets, the implementation of the investment strategy and the day-to-day management of the assets. Strategic management and the implementation of the strategy are the responsibility of the Trustees and is driven by the Trustees' investment objectives. The Trustees have delegated day-to-day management of the assets to professional investment managers.

2. Investment Objectives, Risk and Investment Strategy

The objectives set out here, and the risks and other factors referenced, are those that the Trustees determine to be financially material considerations that are relevant to the likely time horizon of the Scheme.

2.1. Investment Objectives

The Trustees aim to invest the Scheme's assets in the best interests of members and beneficiaries. Within this framework, the investment objectives are twofold. Firstly, in the absence of future contributions to the Scheme, to invest the assets in such a manner that members' benefit entitlements can be paid as they fall due. Secondly, through a successful investment policy, to further improve the benefits to the Scheme's beneficiaries.

The Trustees recognise that investment return is required to achieve the above objectives. Therefore, some risk will need to be taken in a controlled manner, mindful that the Scheme does not have a sponsor to rely on in the event of adverse experience.

2.2. Risk

There are various risks to which any pension scheme is exposed which the Trustees believe may be financially material to the Scheme. The Trustees' policy on risk management over the Scheme's anticipated lifetime is as follows.

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities. Risk is managed primarily through the strategic benchmark adopted for the Scheme. The Trustees assess the appropriateness of the benchmark periodically through review of investment strategy.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding

position. The Trustees review the Scheme's investment strategy at least every three years, or more regularly if circumstances warrant, on the basis of advice received.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio.
- The documents governing the investment managers' appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The investment managers are prevented from investing in asset classes outside their mandate without the Trustees' prior consent.
- Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees meet the investment managers to review the investment portfolio and the investment manager's performance in the light of the objectives and strategy set out in this statement. The Trustees receive regular, at least quarterly, reports from the investment managers and these include, where applicable, a risk classification and a return analysis, along with their component parts, to ensure the risks taken and returns achieved are consistent with those expected.
- The safe custody of the Scheme's assets is delegated to professional custodians. For assets managed on a segregated basis, the Trustees have appointed Brewin Dolphin Limited as the Custodian, who will hold and register the investments in one of its Nominee Companies on behalf of the Trustees. For assets managed on a pooled fund basis, the custody of assets is delegated to the pooled fund custodian.

Considerations specific to risks relating to Environmental, Social and Governance ("ESG") issues are addressed in section 5.

2.3. Investment Strategy

In establishing the investment strategy, the Trustees have taken into account the Scheme's liability profile. They have also considered a range of investment classes based on advice from Mercer Limited. The Trustees have adopted an asset allocation appropriate for controlling the risks identified above and which at the same time offers the prospect for long-term returns above the rate of return assumed by the actuary when calculating the value of the liabilities.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

The overall strategic asset allocation and tolerance ranges are as follows.

Asset Class	Benchmark Allocation (%)	Tolerance Ranges (%)
Return Seeking Assets	10.0	5.0 – 15.0
Matching Assets	90.0	85.0 – 95.0
Total	**100.0**	

Return Seeking Assets are designed to generate long-term returns over and above that of the Scheme's liabilities, whilst the Matching Assets are designed to broadly match movements in the liability value due to changes in interest rates and inflation expectations.

3. Day-to-Day Management of the Assets

The Trustees invest the Scheme's assets in pooled and segregated portfolios. In selecting managers for each asset category, the Trustees have taken advice from Mercer Limited as to the perceived capabilities and skills of each manager in those categories. The investment managers have full discretion over the day-to-day management of the assets, within predefined boundaries.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

When deciding whether or not to make any new investments the Trustees will obtain written advice which will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005, as amended from time to time, and the principles contained in this Statement.

3.1. Matching Assets

Management of the Matching Assets is delegated to Schroders Investment Management Limited ("Schroders") who invest in a range of pooled funds.

To manage the risk of a mismatch between assets and liabilities, the Trustees have developed a Liability Driven Investment ("LDI") framework which seeks to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation. The LDI portfolio targets a hedge ratio of 100% of Technical Provisions liabilities for both interest rates and inflation, based on point in time modelling analysis that is refreshed periodically. The Trustees recognise that the target LDI portfolio will not produce a perfect match for the liability exposure it is aiming to hedge. Furthermore, the Trustees recognise that there are different measures for calculating the liabilities that may not be closely matched by the LDI assets held.

The Trustees have provided Schroders with a Liability Benchmark Portfolio, which reflects the key characteristics of the Scheme's liabilities, as the reference benchmark for the mandate. Schroders has been given discretion to invest across its physical pooled LDI fund range to achieve the Trustees' hedging targets within agreed ranges.

3.2. Return Seeking Assets

Investment of the Return Seeking Assets is delegated to Brewin Dolphin Limited ("Brewin Dolphin") who invest on a segregated basis. The table below sets out the benchmark allocation to which Brewin Dolphin manage these assets.

Asset Class	**Benchmark Allocation (%)**	**Tolerance Ranges (%)**
Equities	87.0	82.0 – 92.0
UK Equities	*39.0*	*34.0 – 44.0*
Global Equities	*48.0*	*43.0 – 53.0*
Alternatives	7.0	2.0 – 12.0
Absolute Return	*5.0*	*0.0 – 10.0*
Commercial Property	*2.0*	*0.0 – 7.0*
Bonds	6.0	1.0 – 11.0
Corporate Bonds	*3.0*	*0.0 – 8.0*
Fixed Interest Gilts	*3.0*	*0.0 – 8.0*
Index-Linked Gilts	*0.0*	*0.0 – 5.0*
Cash	0.0	0.0 – 5.0
Total	**100.0**	

Benchmark allocation shown is as at December 2019.

The Trustees expect the investment manager to invest in a widely diversified portfolio of investments, including equities and bonds, subject to the allocation ranges in the table above, and the constraints and parameters set out in the Investment Management Agreement, including:

- no investment to be more than 5% of the total value of the investment portfolio
- maximum holding of any class of issued share or debt in any company to be 3%
- no investment in unquoted companies
- no investment in non-F.C.A. regulated collective investment schemes
- underwriting only to be carried out by prior agreement
- investment in bonds should be generally restricted to investment grade bonds or equivalent

4. Investment Policies

4.1. Investment Restrictions

The investment managers have discretion over the investment of the assets, subject to the restrictions set out in their respective Investment Management Agreements or pooled fund guidelines. The Trustees are satisfied that the spread of assets by type and the investment managers' policies on investing in individual securities provide adequate diversification of investments.

4.2. Rebalancing

Section 2.3 sets out tolerance ranges for the strategic asset allocation. Should the actual asset allocation move outside these ranges, the Trustees will consider whether to rebalance in line with the benchmark allocation. Brewin Dolphin are responsible for rebalancing within the Return Seeking Assets portfolio.

4.3. Selection and Appointment of Investment Managers

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class and specific mandate they are being appointed to manage on behalf of the Trustees.

The Trustees look to Mercer Limited for a forward-looking assessment of whether a manager is likely to achieve its objectives over a full market cycle. This view will be based on Mercer Limited's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment being considered. Where applicable, Mercer Limited's manager research ratings assist with due diligence and are used in decisions around selection, retention and realisation of manager appointments.

When selecting and appointing investment managers, the Trustees will take into account how ESG, climate change and stewardship are integrated within the managers' investment processes. This will be balanced against other manager selection criteria such as (but not limited to) idea generation, portfolio construction, implementation, business management and fees and charges.

For segregated appointments, the Trustees have specified criteria in the investment manager agreements to be in line with the Trustees' specific investment requirements. For appointments in pooled investment vehicles, the Trustees accept that it has no ability to specify the risk profile and return targets of the pooled fund. The Trustee has ensured the pooled fund mandates are aligned with the Scheme's overall investment strategy.

4.4. Review of Investment Manager Appointments

The Trustees are a long term investor and are not looking to change the investment arrangements on a frequent basis. The Trustees will retain an investment manager's appointment unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the Trustees have decided to terminate.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

The Trustees receive and discuss investment manager reports on a quarterly basis. The reports present performance information for each investment manager and, for Matching Assets, hedging levels. The Trustee reviews the absolute performance, the relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustees' focus is on long term performance but will put a manager 'on watch' if there are sustained short term performance concerns.

If a manager is not meeting performance objectives or targets, or the investment objectives for a mandate have changed, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives. If the Trustees agree to retain the appointment, it may ask the manager to review its Annual Management Charge. The Trustees may also consider performance related fees on a case by case basis and would also consider requesting fee reductions.

4.5. Ongoing Monitoring

Mercer Limited, in conjunction with the actuary, assist in the ongoing monitoring of the Scheme's asset position and corresponding impact on funding.

At present, the Trustees do not formally monitor investment manager portfolio turnover costs but will look to incorporate this into its investment manager monitoring process.

4.6. Realisation of Investments

In general, the Scheme's investment managers have discretion over the timing of the realisation of underlying investments. Ongoing cashflow requirements are typically met from the Scheme's Matching Assets.

5. Responsible Investment and Stewardship

The Trustees believe that financially material factors, including environmental, social and corporate governance (ESG) factors, may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the Scheme's investment time horizon and increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and to exercise voting rights and stewardship obligations attached to the investments, including undertaking engagement activities, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Specifically, the Trustees require managers to vote on all actions, unless to do so would be detrimental to the Scheme, and to report any exceptions. The Trustees believe not only that active ownership helps realise long term shareholder value, but also that good corporate governance is important and it expects the investment managers to have suitable policies in place which promote the concept of good corporate governance and, in particular, a policy of exercising voting rights. Managers' engagement polices are expected to include all relevant matters including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance. The Trustees will review the investment managers' policies and voting and engagement activities (where applicable) on an annual basis. This review will consider both equity and bond investments.

The Trustees will consider sustainability themed investments if such an investment was consistent with the required objectives and investment characteristics of the Scheme's investment strategy.

The Trustees have not set any investment restrictions pertaining to ESG considerations on the appointed investment managers in relation to particular products or activities, but may consider this in future.

5.1. Non-Financial Matters

"Non-financial matters" (where "non-financial matters" includes members' ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments but the Trustees regularly update members via newsletters and by making a copy of the Statement of Investment Principles available on request and on the Scheme's website. The Trustees would review this policy in response to significant member demand.

6. Compliance with and review of this Statement

The investment strategy set out in section 2.3 will be reviewed by the Trustees at least every three years following actuarial valuations and without delay after any significant change in investment policy. In addition, the Trustees may make changes to this Statement, on the basis of written professional advice, at any time. The investment managers will notify the Trustees promptly of any breach of its investment management responsibilities as set out in their respective investment management agreement and in the Statement. Compliance with the Statement will in any case be considered annually.

Signed: J.E. WOOD	Signed: S.J. TRENAM
Date: 28 August 20	Date: 28 August 20

For and on behalf of the Nottinghamshire and District Miners' Pension Scheme 1939 in their capacity as Trustees of the Nottinghamshire and District Miners' Pension Scheme 1939