Nationwide
Pension Fund

The Cheshire & Derbyshire (C&D) Section: Statement of Investment Principles ("SIP")

13th of February 2025

The Nationwide Pension Fund consists of two sections, the Nationwide Section, and the C&D Section. This Statement of Investment Principles relates to the C&D Section. 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 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 reflect this aim, the Trustee's long-term aspiration is to achieve full funding on a solvency basis, with this basis being seen as a good proxy for a Buy-out, and additionally provide a margin for prudence as well as sufficient funding to hedge the Section's longevity risk. This aspiration is referred to as the Trustee Funding Target. As well as the liabilities, the Trustee considers the strength of the Sponsor covenant when setting its investment objectives.

1.3. Alongside the Trustee Funding Target is the statutory requirement to agree a Recovery Plan with the Society if full funding is not achieved on a Technical Provisions basis, however, this requirement does not currently apply to the Section due to the Technical Provisions funding level exceeding 100%.

1.4. In setting the 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 and strategic asset allocation

2.1. The Trustee has set a long-term Trustee Funding Target. The Trustee monitors the outcomes from the investment strategy, the actual and projected funding level relative to the Trustee Funding Target and the strength of the sponsor covenant to determine actions to deliver the Trustee Funding Target.

2.2. To achieve the Trustee Funding Target the Trustee maintains an insured portfolio and an uninsured portfolio.

2.3. The insured portfolio consists of a Buy-in, which matches a proportion of the Section's liabilities as they fall due.

2.4. The uninsured portfolio is managed based on the Section's investment strategy and asset allocation operational ranges with these being reviewed periodically to ensure they align with the Trustee Funding Target. This review includes an assessment of the environmental, social and governance (ESG) opportunities and risks faced by the Fund.

2.5. At the date of this SIP, the asset allocation strategy chosen to meet the Trustee Funding Target is set out in the table below. The inherent hedging achieved by the current strategy is designed to deliver the Trustee Funding Target.

Asset Class	Operational Ranges
Matching Assets	84 - 100%
Return Seeking Assets	0 - 16%
Cash	0 - 2%

2.6. The Trustee can temporarily diverge from the operational ranges to allow occasional tactical asset allocation decisions, to allow for market dislocation, 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.

2.7. The uninsured portfolio is monitored against the operational ranges on a weekly basis and rebalanced if either sub-portfolio is not within the specified range.

2.8. The Matching Assets are a sub-portfolio of assets whose sensitivity to inflation and interest rates are broadly equal to those of the Section's liabilities. These assets are aligned to the long-term strategy of the fund.

2.9. However, the Trustee recognises the potential volatility in returns, particularly relative to the Section's liabilities, and the risk that the fund managers do not achieve the target returns set.

2.10. 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.

2.11. When choosing the Section's planned asset allocation strategy, the Trustee considered written advice from its Investment Consultant (IC) 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.

2.12. 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.

2.13. The Section hedges its exposure to interest rate and inflation risk and as the Funding Ratio of the Section improves through anticipated asset performance, hedging may be transacted to maintain a high hedge ratio and align the risk to the Section's long-term strategy, subject to sufficient collateral being available to support the increased hedging whilst maintaining an appropriate collateral buffer and having sufficient cash to meet cashflow requirements.

2.14. Note the Section has broadly achieved a full hedge of interest rate and inflation risk with a large part of this hedge achieved through the Buy-in transaction. This transaction has also reduced longevity risk.

3. Risk management

3.1. 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").

3.2. 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	Concentration of assets could result in disproportionate impacts from an idiosyncratic or systemic issue. This risk is managed through Buy-ins, diversifying return seeking assets and increasing investment in matching assets. While a Buy-in concentrates assets into one asset manager (an insurer), there are mitigants to this risk mentioned in the Insurer section below.
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. All investments are in Sterling hedged share classes so there is no explicit currency risk in this section.
Environmental, Social and Governance	The effects of climate change and/or relevant regulatory changes could decrease investment asset values. Pre-investment due diligence and ongoing engagement with asset managers takes place to reduce this risk.
Inflation	Changes in inflation will affect the value of future liabilities, the Buy-in and hedging is used to reduce volatility.
Interest rates	Changes in interest rate will affect the present-day value of assets that are held to meet future liabilities, the Buy-in and hedging is used to reduce volatility.
Insurers	An insurer responsible for assets could default or fail to meet administration obligations, this is mitigated by the regulatory requirements they operate under, pre-trade due diligence, and on-going monitoring.
Liquidity	A delegated, automated, solution to maintain sufficient cash has been arranged with the asset manager responsible for the assets under Trustees ownership.
Longevity	Increases in life expectancy will increase the length of time liabilities are paid, this is partially hedged via the Buy-in 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.
Covenant	A weakened covenant or resolution even would reduce Fund security. This risk is considered when setting the investment strategy and is mitigated by the strong funding level of the Section. 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.

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 Section specific funding requirements introduced by the Pensions Act 2004.

3.6. The Trustee's policy is to monitor the risks regularly. The Trustee receives regular reports showing:

- Actual funding level versus the Section specific funding objective.
- 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.
- 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.
- The Section's liquidity and collateral position.

4. Implementation

4.1. 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 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, the IFC and the IC.

4.3. The Section's longevity risk has been reduced by a Buy-in insurance contract that has been purchased from Canada Life.

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

4.5. The IC 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 and 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, which will offer a suitable long-term return, consistent with members' reasonable expectations.

5.3. 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.

6. Responsible investing

6.1. 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.

6.2. 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.

6.3. 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.

7. Governance

7.1. The Trustee is responsible for the investment of the Section's assets. The Trustee makes decisions 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 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.

7.3. 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 SA for the CIO Team and the Contract for Services agreed with the IC.

Trustee responsibilities

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

IFC responsibilities

- Monitor investment advisers and fund managers.
- Make recommendations to the Trustee Board on the appointment of ICs.
- Draft the Section's SIP 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.
- Provide a process, which reassures the Trustee that effective monitoring occurs, and that the IC 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.

CIO Team responsibilities

- Monitor and report to the IFC and the Trustee Board on the performance of managers and liaise with the Custodian, IC 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.
- Day to day oversight of the Section's managers, transition manager, Custodian, and IC.
- 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.
- Manage the Section's cash balances, liquidity, leverage levels and collateral positions.
- Record decision-making processes of the IFC regarding investment recommendations from the IC.
- Implement the Section's Responsible Investing Policy and monitor ongoing adherence to the policy.

IC 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 progress of the Section against liabilities on a Technical Provisions and Solvency basis.
- Advise on the Trustee's investment policies.
- Advise the Trustee on suitability of the indices in the benchmark.
- Provide required training to the Trustee and the CIO Team.
- Provide quarterly performance and risk reporting including analysis of interest rate, inflation, and longevity risks.
- Monitor impact of changes in investment allocation and strategy.

Fund Manager responsibilities

- Operate within the terms of this statement and their written contracts.
- Select individual investments with regard to their suitability and diversification.

7.4. Under Section 36(3) of the Pensions Act 1995 (as amended), before investing in any manner, the Trustee must obtain and consider proper advice from their IC 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 the Trustee has selected a single fund and where the manager has no discretion to invest in other vehicles.

7.5. The Trustee reviews the retained investments and obtains the IC’s views 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.

7.6. Any 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

7.7. The Trustee’s IC has the knowledge and experience required under the Pensions Act 1995.

7.8. 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.

7.9. 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.

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

Buy-in is an insurance policy that covers a proportion of scheme liabilities, such as pensioners in payment.

Chief Investment Officer 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 IC.

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.

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 liabilities on a Solvency basis.

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.

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

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 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 relating 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 still remains the sponsoring entity of the Fund.

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 fully funded on a solvency basis with this basis being seen as a good proxy for a Buy-out. The Trustee Funding Target will be reviewed from time to time.