

The Pension Scheme for the Nursing and Midwifery
Council and Associated Employers

Statement of Investment Principles

Fourth Edition

THE PENSION SCHEME FOR THE NURSING AND MIDWIFERY COUNCIL AND ASSOCIATED EMPLOYERS

Statement of Investment Principles – Fourth Edition

April 2021

1.0 Introduction

This Statement of Investment Principles (the “Statement”) has been prepared by the Trustees of The Pension Scheme for the Nursing and Midwifery Council and Associated Employers (the “Trustees”) in respect of The Pension Scheme for the Nursing and Midwifery Council and Associated Employers (the “Scheme”) in accordance with Section 35 of the Pensions Act 1995, as amended, and the Occupational Pension Scheme (Investment) Regulations 2005.

This is the fourth edition of the Statement and, taken with the document “Investment Managers and Advisers”, replaces all other versions and addenda.

In preparing this Statement the Sponsoring Employers have been consulted.

2.0 Investment Governance Structure

The Trustees’ primary role is to act in the best interests of the Scheme members.

The Trustees are ultimately responsible for the Scheme’s assets and meet quarterly to discuss investment strategy. They take strategic investment decisions as a complete body, with advice from their investment adviser, and do not feel it necessary to set up an Investment Sub-Committee. Only after appropriate due diligence has been carried out and presented to the Trustees will an investment be made. The Trustees’ responsibilities and duties include, but are not limited to:

- Asset allocation and planning;
- Derisking and the use of derivatives for risk management purposes;
- Compliance with Legislation and Regulation;
- Appointment of an investment adviser and Scheme Actuary;
- Maintenance of this Statement;
- Consultation with the Sponsoring Employers;
- Appointment and removal of fund managers;
- Monitoring of all service providers, including advisers.

The investment adviser’s role includes, but is not limited to:

- Advising the Trustees on the preparation and maintenance of this Statement;
- Recommending changes or deviations from the asset allocation, including advice on liquidity;
- Quarterly performance monitoring and reporting;
- Providing updates on the fund managers, including recommending any changes;
- Advice on investment opportunities and risks;
- Recommending changes to the fund managers, including the selection of replacements;
- Ad-hoc work as requested.

The Scheme Actuary’s role includes, but is not limited to:

- Undertaking and presenting triennial (or more frequent if required) actuarial valuations and advise the Trustees on appropriate contribution rates;

THE PENSION SCHEME FOR THE NURSING AND MIDWIFERY COUNCIL AND ASSOCIATED EMPLOYERS

Statement of Investment Principles – Fourth Edition

April 2021

- Providing the investment adviser with cashflow and liability information to enable asset allocation and journey planning to be undertaken;
- Work with the investment adviser to show the impact of changes in benefits, membership or sponsor covenants may affect the asset allocation;
- Ad-hoc work as requested.

The day-to-day investment decisions within given asset classes, is delegated to fund managers, whose role includes, but is not limited to:

- Managing the portfolio within the guidelines, objectives and restrictions set out in their Investment Management Agreement (IMA)
- Ensuring the portfolio is appropriately diversified;
- Providing the Trustees with monthly statements and quarterly investment reports, including details of Environmental and Social Governance (ESG) policies;
- Keeping the Trustees up to date with any changes to the funds operations, including benchmarks and personnel.

Details of the investment adviser and fund managers can be found in a separate document entitled, “Investment Managers and Advisers”.

3.0 Investment Beliefs

The Trustees believe that it is in the members’ best interests to deliver the returns necessary to meet all capital payments (including to members) when they fall due, within an acceptable risk framework. Investment decisions are made with members’ best interests at their core. Provided this primary goal is met, decisions are made within the confines of our stated investment beliefs and policies.

However, it is recognised that the size of the Scheme means that investment is made via pooled funds. As such beliefs and policies in selecting and monitoring the funds in which the Scheme invests are applied as far as is practicably possible.

The Trustees, the sponsoring employers and the Scheme membership have a strong ethical approach to their investments. The employers’ ethical framework is set out in Appendix A, which is under review, and the Trustees adhere to this as far as possible, provided there is not a material impact on expected investment returns. Any deviation from this policy must be for good reason which must be fully documented.

With this in mind the Trustees have set out the following beliefs:

- It is preferable to take a long-term approach to investing; trying to time the markets in the short term can be highly risky.
- Managing investment risk in absolute terms and against liabilities is more appropriate than not, provided it is cost-effective to do so.
- Diversification across different drivers of return is key to delivering strong risk-adjusted returns.
- In very efficient markets, our preference is to invest passively, investing actively where there is a demonstrable ability to add value.

THE PENSION SCHEME FOR THE NURSING AND MIDWIFERY COUNCIL AND ASSOCIATED EMPLOYERS

Statement of Investment Principles – Fourth Edition

April 2021

- Provided liquidity is well managed against Scheme circumstances and stress tested at a portfolio level, it may be financially beneficial to invest in illiquid assets such as real estate and private equity.
- Inherent reliance on assumptions within complex investment models means we use models to provide guidance to investment decision-making and not as the key determinant.
- Investments that have a positive ESG impact, including in respect to climate change, are more likely to outperform those that do not, and may reduce risk over the long term.
- Well governed businesses are more likely to outperform poorly governed businesses.
- Fund managers who take an active approach to company engagement, are transparent in their reporting and are considered good stewards of assets will generally perform better than those that do not.

4.0 Investment Objectives

Investment objectives are set with reference to the liability profile of the Scheme and the sponsors' covenants. Trustee meetings focus on the investment strategy, and performance against objectives is monitored.

The Trustees have set out three main objectives for the investment strategy:

1. To ensure sufficiently realisable investments to meet capital calls, including member payments when they fall due;
2. For the value of the assets to be in excess of the value of the liabilities on a Technical Provisions basis, within the timeframe of the Recovery Plan without taking undue risk;
3. To reduce funding level volatility by increasing interest rate and inflation hedges over time, and by considering further buy-in/buy-out when it becomes cost-effective to do so.

These objectives are the key driver of all decision making and overarch all other policies and beliefs.

5.0 Environmental, Social and Governance (ESG)

The Trustees believe ESG, including climate change, to be financially material long-term investment decision making factors. It is therefore considered as part of the selection and retention of asset classes and fund managers, using analysis provided by their investment adviser.

The Trustees consider the Sponsoring Employers policy in respect to ESG and integrate them as far as possible into their own decision making. There is ongoing engagement with the Sponsors.

The Trustees have a ESG policy documented in appendix A of this document which relates to their 'Growth' assets.

6.0 Stewardship

THE PENSION SCHEME FOR THE NURSING AND MIDWIFERY COUNCIL AND ASSOCIATED EMPLOYERS

Statement of Investment Principles – Fourth Edition

April 2021

The Trustees do not have the necessary skills to vote or engage individually with the companies in which they invest through their fund managers. They also recognise that by investing via pooled funds they are unable to directly influence the underlying securities in which their fund managers invest.

However, portfolio managers are expected to engage and influence the companies in which they invest as well as exercise their right to vote, including on performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance. The Trustees recognise the importance of their role in relation to stewardship and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying scheme assets.

The Trustees expect managers to report fully on such voting and engagement activity and the Trustees engage with and monitor pooled fund managers, with respect to, for example, conflicts of interest and performance. This is primarily carried out via the Trustees' investment adviser, who provides analysis and advice to the Trustees. Should the Trustees or their advisers be called on to vote on a particular matter, they will do so in the best interests of the Scheme's members.

7.0 Risk Management

7.1 Integrated Risk Management

The Trustees fully understand the need to align the interests of all stakeholders in the Scheme. Specifically, the Trustees ensure that the Actuarial assumptions, investment strategy and risk appetite of the sponsors are balanced as far as possible.

7.2 Risk Appetite

The Trustees provide value at risk information to the sponsor as part of the actuarial valuation and strategy review.

Given the size of the pension fund and the spurious accuracy of risk metrics, the Trustees have not set an absolute risk level for the Scheme, nor have the sponsors expressed one. However, all parties are aware of "value at risk".

7.3 Risk Reduction Strategies

The Trustees will consider different asset classes to achieve diversification, provided they fit within the ethical framework, as a means to reduce portfolio risk.

In addition, risk mitigation strategies will be implemented, such as adding to pooled funds that have exposure to bonds and/or interest rate and inflation swaps, or adding tail risk protection, as a means to address specific portfolio or liability valuation driven risks, where it is appropriate and cost-effective to do so.

The Trustees delegate the day to day running of the Scheme investments to appropriately qualified fund managers, who are recommended by their investment adviser.

The Trustees will invest passively in certain asset classes where the risk of manager underperformance is not expected to be compensated by superior returns.

THE PENSION SCHEME FOR THE NURSING AND MIDWIFERY COUNCIL AND ASSOCIATED EMPLOYERS

Statement of Investment Principles – Fourth Edition

April 2021

It is recognised that full matching of liabilities can only be achieved through buy-in or buy-out and annuities forms a core part of the portfolio. The Trustees will continue to look for opportunities to derisk the Scheme.

7.4 Cashflow Management

One of the key elements when setting investment strategy is the liquidity requirements of the Scheme. Liquidity requirements are analysed as part of the investment strategy setting process, and are stress tested to ensure cashflow is covered in most scenarios. The Trustees monitor ongoing liquidity needs quarterly and assess whether there are sufficiently liquid assets available in the short term.

Overtime it is expected the scheme will begin to invest in cashflow matching funds in order to directly 'match' a proportion of liquidity requirements.

8.0 Strategy

The Trustees have set actuarial valuation assumptions that have different discount rates applied to pre-retirement liabilities and current pensioner liabilities. The investment strategy is therefore set with reference to this basis and the restrictions that may impose. Specifically:

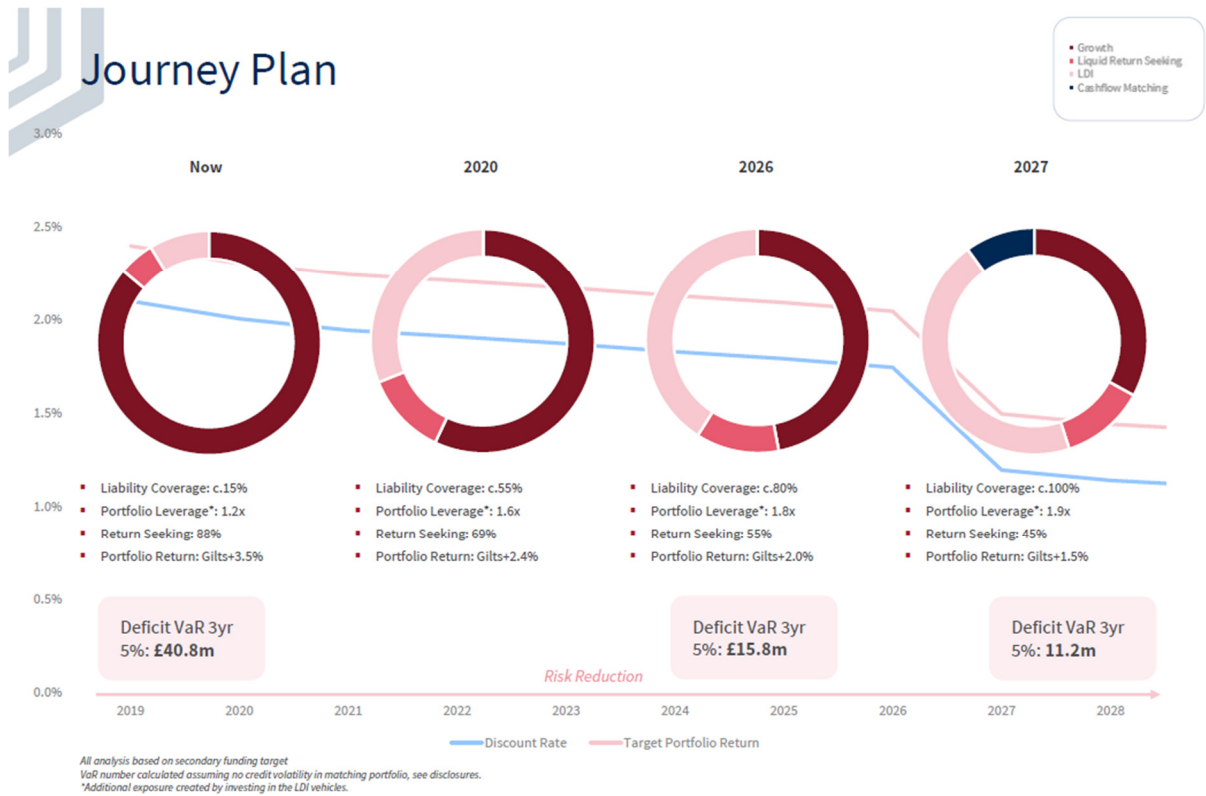
- The assets will be invested such that the expected return on the portfolio will be 30bps above the required return implied by the valuation basis or recovery plan, whichever is higher.
- The current portfolio will see a reduction in the allocation to growth in the short to medium term with increasing allocations to LDI assets.
- At the end of the recovery period the required return will fall and the scheme will be able to invest into cashflow matching assets.

Asset allocation is monitored on a quarterly basis by the investment adviser and the Trustees to ensure the portfolio is still expected to return the required rate. The expected path of target return and asset allocation is detailed below.

THE PENSION SCHEME FOR THE NURSING AND MIDWIFERY COUNCIL AND ASSOCIATED EMPLOYERS

Statement of Investment Principles – Fourth Edition

April 2021



The journey plan is updated as part of the triennial valuation, or sooner should there be material change to the liability profile or status of the Scheme.

9.0 Expected Return on Investments

The portfolio of assets is expected to achieve at least the return assumed within the Actuarial Valuation basis. Each fund manager has a benchmark which they are expected to achieve, and these are set out in a separate Investment Managers and Advisers document.

10.0 Fund Manager Selection and Retention

Fund managers are selected following consultation with advisers and after full due diligence has been undertaken. This will generally include an analytical and qualitative summary of a manager being tabled at a board meeting.

Managers will be selected based on a number of criteria, key components of which are the governance of the investment manager, the strength of the investment team, risk management, track record, ethical approach and value for money. As part of the fund research process, the investment adviser will consider each fund manager’s approach to environmental, social and governance (ESG) issues, ensuring it fits with the Trustees’ and Sponsors’ own beliefs and policies.

THE PENSION SCHEME FOR THE NURSING AND MIDWIFERY COUNCIL AND ASSOCIATED EMPLOYERS

Statement of Investment Principles – Fourth Edition

April 2021

Both passive and active mandates will be considered, depending on the efficiency of the market being invested in.

The Trustees regularly engage with their portfolio managers and assesses them with reference to ESG (including with respect to climate change), performance, conflicts of interest, running costs, transparency and reporting of engagement, voting and ESG. Formal assessment is over the long-term, typically annually, but more regular monitoring is undertaken, typically quarterly.

Whilst incentivising managers as investors in a pooled fund has limitations, the scheme's advisers' continued engagement with managers on these issues is seen as the best way to align them with the trustees' policies and beliefs.

A full list of the fund managers and their mandates can be found in the document entitled, "Investment Managers and Advisers".

11.0 Performance Monitoring

The Trustees review the performance of the Scheme on a quarterly basis. Consolidated reporting is provided by their investment adviser, which covers market commentary, macro-economic themes, asset allocation and Scheme performance.

The Trustees monitor all managers and performance net of fees and have set benchmarks with reference to the long term asset allocation. The approach to ethical investment is also monitored quarterly.

Fund managers are monitored over the long term and it is accepted that, given the mandates in place, short term volatility may be experienced.

The Trustees also measure the advice received on a qualitative basis.

The key measure of success of the Trustees' decisions and the advice given is through the improvement in the funding level, and this is monitored quarterly.

12.0 Transparency

Information is available to members, including this Statement. It is the Trustees' aim to be transparent and free from conflicts as fiduciaries to the Scheme.

13.0 Compliance

This Statement has been drawn up with reference to current legislation and best practice. In particular, the Trustees have considered the Myners' Principles and The Pensions Regulator's Investment Guidance for Defined Benefit Pension Schemes, as appropriate to the Scheme.

**THE PENSION SCHEME FOR THE NURSING AND MIDWIFERY
COUNCIL AND ASSOCIATED EMPLOYERS**

Statement of Investment Principles – Fourth Edition

April 2021

The Statement will be reviewed annually and following any significant changes to the sponsoring employers' ability, or willingness, to support the Scheme or significant changes to the liability profile.

Date 06 July 2021
.....

Signed on behalf of the Trustees by

Name John Halladay
.....

Signed **DocuSigned by:**
John Halladay
C3F02EC3B462426...

Appendix A – The NMC Policy on Ethical Investment

The Trustees have considered the Nursing and Midwifery Council's Ethical policy in designing their own policy, mirroring their policy where appropriate.

Across all 'Growth' assets the Trustees will assess their investments through the following three categories of investment.

Category one: absolute exclusion

Trustees will exclude all direct investment in companies whose products have an inherent, fundamental conflict with our objectives, role or values. For example, smoking is inherently damaging to health; therefore our investment mandate totally excludes direct investment in companies that produce tobacco or tobacco related products.

Therefore we exclude direct investment in any company that produces:

- tobacco or tobacco related products; and
- pornography.

Category two: turnover-based exclusion – direct investments

The second category limits our direct investment in companies which are at increased risk of being incompatible with our objectives, role or values. For example gambling is not inherently and unavoidably damaging to health, so it is not included in our first category of absolute exclusions. But gambling is likely to be damaging to health if done to excess. Therefore we do not actively want to invest in gambling to any significant extent.

On the other hand, reducing our investment risk while maximising our long term returns depends on maintaining a sufficient diversification of our investments. Many companies operate through multiple subsidiaries in a wide range of sectors and markets. Therefore we need to be careful that our ethical investment policy does not exclude companies whose involvement in the given activity, and therefore the risk of conflict with our objectives, role or values, is acceptably small. To achieve an appropriate balance between our financial objectives and our ethical objectives, we apply a turnover-based exclusion: that is, we will not invest in companies who derive more than five percent of their turnover from the products or services which are at increased risk of being incompatible with our objectives, role or values.

The turnover-based exclusions are direct investment in any company that derives more than five percent of its turnover from:

- gambling;
- alcohol;
- armaments; or
- infant formula milk.

Category three: turnover-based exclusion – indirect investment

THE PENSION SCHEME FOR THE NURSING AND MIDWIFERY COUNCIL AND ASSOCIATED EMPLOYERS

Statement of Investment Principles – Fourth Edition

April 2021

When we invest indirectly, for example through a fund or unit trust, the indirect investment vehicle must not hold direct investments in companies that derive more than ten percent of their turnover from producing:

- tobacco;
- pornography;
- gambling;
- alcohol; or
- armaments.

In the above context the Trustees consider investments made via the Amundi Fund of one as direct investments and all other investments are indirect investments.

In addition to the exclusions noted above, the Amundi portfolio will also have specific stock exclusions related to the production of formula milk. Specifically, they will make the below single name exclusions in the portfolio.

- Abbott Nutrition
- Ausnutria
- Danone S.A.
- Nestle S.A.
- Reckitt Benckiser (Mead Johnson)

The Trustees will consider these exclusions in respect of the LDI portfolio but note that the ability to do this is more challenging within those mandates where the investment objectives are less flexible.

**THE PENSION SCHEME FOR THE NURSING AND MIDWIFERY COUNCIL
AND ASSOCIATED EMPLOYERS**

Statement of Investment Principles – Fourth Edition

April 2021

Appendix B - Authorised Advice

In my capacity as investment adviser to the Scheme, as an investment adviser with Ormonde Advisory Limited, and as an Approved Person with the Financial Conduct Authority, which authorises me to give investment advice under the Financial Services and Market Act 2000, I am pleased to provide you with written investment advice. This advice refers to the suitability of the investment strategy as set out in the Fourth Edition of the Statement of Investment Principles. In my professional opinion, the investment strategy you currently have in place is broadly appropriate to the nature of the Scheme’s liabilities and my understanding of both the Trustees’ and Sponsoring Employers’ risk tolerances and objectives.

The Trustees regularly review the investment strategy, taking into account revisions to the actuarial valuation, changes to liability profile and funding level, and changing investment market conditions, and are proactive in their decision making.

08 July 2021

Date

William Brammar

Name

Signed

DocuSigned by:
William Brammar
F5C3ACA4ED8245A...