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

Statement of Investment Principles

Fifth Edition

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 fifth 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 a suitably qualified 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 setting an investment strategy;
- 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 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 advising the Trustees on appropriate contribution rates;
- Providing the investment adviser with cashflow and liability information to enable asset allocation and journey planning to be undertaken;
- Working with the investment adviser to show the impact of changes in benefits, membership or sponsor covenants on 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, Social and Governance (ESG) policies, engagement and voting;
- Keeping the Trustees up to date with any changes to the funds' operations, including benchmarks and personnel.

Details of the investment adviser's remuneration can be found in a separate document entitled, "Investment Managers and Advisers".

3.0 Investment Beliefs

It is in the members' best interests for the Scheme 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 regularly reviewed, 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.

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 is highly risky;
- Managing investment risk 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;
- 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 member payments when they fall due;
2. To substantially hedge out interest rate and inflation risk on a low dependency basis.
3. To consider buyout when attractive to do so.

Following significant improvements in funding during 2022 the Trustees have taken the opportunity to materially reduce the allocation to growth assets.

The Trustees, together with their investment adviser, have discussed the investment objectives and the resultant investment strategy with the Scheme Actuary to ensure it is consistent with the actuarial valuation methodology and assumptions. The Trustees have also discussed the objectives with the Sponsors.

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 an important long-term factor when making investment decisions. 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 believe that climate change is a financially material consideration when investing and engage with their managers on the issue, encouraging them to consider the impact climate change may have on their portfolios. They expect fund managers to, as far as possible, align with the Task Force on Climate-Related Financial Disclosures.

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 on ESG.

The Trustees have an ESG policy documented in appendix A of this document which relates to their 'Growth' assets. Any credit exposure will also be selected with ESG in mind. Non-financially material ESG factors are considered where it is believed there is a majority membership preference or where the financial impact is unlikely to be detrimental to returns.

6.0 Stewardship

The Trustees do not have the necessary skills to vote or engage individually with the companies in which they invest through their fund managers. However, they do recognise that when investing via pooled funds it is important to ensure that the fund managers are aligned with the Trustees' own beliefs.

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, 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, including 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.

The impact of ESG and climate change, along with the voting of fund managers, will be assessed annually, via the Engagement Policy Implementation Statement to ensure that they continue to meet the Trustees' investment beliefs. Where activity or voting is not considered in line with their own beliefs, the Trustees will request an explanation from the fund manager. If there is not a satisfactory response or continued conflict with the Trustees' views, then disinvestment will be considered.

The Trustees are considering setting their own stewardship priorities.

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 Sponsors as part of actuarial valuations and strategy reviews.

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".

The Sponsors have expressed a desire to reduce, insofar as possible, the impact of adverse interest rate and expected inflation movements on the Scheme's low dependency funding level, recognising that improvement in funding during 2022 has brought the opportunity for buyout closer than it would otherwise have been.

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 further 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.

As funding improves further, leverage will be reduced by reducing exposure to levered Liability Driven Investment ("LDI") funds and allocating more to unlevered funds.

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

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 asset classes where the risk of manager underperformance is not expected to be compensated by superior returns.

7.4 Cashflow Management

The Sponsors are not expected to pay any contributions following the 2022 Actuarial Valuation and liquidity is therefore monitored closely.

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.

Over time the Scheme may begin to invest in cashflow matching funds in order to directly 'match' a proportion of Scheme outflows.

The Trustees acknowledge the Pensions Regulator guidance on liquidity and Liability Driven Investment ("LDI") portfolios and are compliant with it as appropriate.

8.0 Strategy

Following the Gilt crisis in 2022, the funding of the Scheme improved substantially. As a result, the Trustees moved to a 66% allocation to LDI assets, retaining 33% in growth assets. LDI in this instance includes levered and unlevered funds that include cash, Gilts, Index Linked Gilts and derivatives, alongside collateral assets such as cash and credit.

It is expected that as funding improves further, and as illiquid investments are paid back, the growth allocation will be reduced further, potentially towards a portfolio that better reflects an insurers buyout portfolio.

Monitoring of funding is undertaken quarterly and decisions for further derisking will be made as part of that monitoring. Any decisions will be made with reference to the low dependency rate, defined as Gilts + 0.5% per annum).

At any point in time the allocations may diverge due to market conditions, liquidity requirements or other external factors, but the Trustees will look to rebalance to achieve at least the low dependency rate.

The strategy 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 low dependency rate, with an initial expected portfolio return of Gilts + 1.0% p.a.. 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 Asset Allocation

10.1 Growth Assets

The Trustees have not restricted themselves by asset class and are willing to consider illiquid investments, provided they fit within the framework set out in this Statement.

Given the size of the Scheme, only pooled funds will be considered.

10.2 Bond Assets

The Trustees have worked with their Scheme Actuary, investment adviser and LDI provider to establish a portfolio that achieves a 95% interest rate and inflation hedge on a low dependency liability basis.

However, the Trustees do have flexibility to change the hedge based on market conditions and liquidity needs.

Hedging will be achieved using both levered and unlevered LDI funds, the combination of which is managed by the LDI provider within a mandate to target a specified hedge ratio and as low a level of leverage as possible.

The Trustees recognise that an exact hedge is not possible, given the size of the Scheme, and that a full hedge is not possible, without the use of leveraged products.

At the present time, the Trustees have elected to use LDI vehicles to achieve a broad hedge based on interest rate and inflation sensitivities. It is recognised that the size of the Scheme restricts investment to pooled funds only and that market conditions and liquidity requirements may result in the mix of assets deviating from the target in times of stress.

The LDI manager will monitor and rebalance the portfolio to maintain the hedge level against the target. If capital is required to maintain the hedge (for example, when yields rise) capital is taken from assets in the following order ("the LDI waterfall") from the LDI provider funds:

- Cash
- Unlevered Gilt and Index-Linked Gilts
- Levered LDI funds

Any capital paid out is paid to cash.

The above is the target strategy, which will take some time to set up and put in place, including the appointment of a custodian to enable the combination of levered and unlevered funds, and the ongoing management by the LDI provider. Therefore, a more basic interim solution using only levered funds will be used whilst the documentation for the full strategy is being completed.

11.0 Fund Manager Selection and Retention

Fund manager selection is made by the Trustees on advice from their investment adviser.

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 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 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".

12.0 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.

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.

Managers are expected to provide transparency on the costs of running pooled funds, including transaction costs, and are expected to declare any conflicts of interest or changes in ownership as soon as is practical.

The Trustees have set their investment adviser objectives, which they are monitored against.

13.0 The Arrangements with Asset Managers

The Trustees monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers align with the Trustees' beliefs and strategy. This includes monitoring the extent to which the asset managers make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity.

Although fund managers are appointed for the long-term, it is recognised that there will be short-term performance volatility, which is monitored and kept under regular review via their investment adviser. There is typically no set duration for arrangements with assets managers.

The Trustees have clear expectations of the asset managers which are contained in their contractual agreements with them and regularly monitor performance. Under the agreements, the Trustees ultimately have the ability to terminate the engagement if they are not satisfied with performance, including in relation to stewardship, ESG and climate change, although an interim step would be to engage via their investment adviser with regard to any concerns and to evaluate any explanations and proposals for change.

14.0 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.

15.0 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 Statement will be reviewed regularly and following any significant changes to the Sponsors' ability to support the Scheme or significant changes to the liability profile.

Date ....

Signed on behalf of the Trustees by

Name .... Signed ....

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, and within corporate bonds if possible, 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

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.