Statement of Investment Principles

The National Deposit Friendly Society Staff Superannuation Fund

April 2023

Contents

01	**Introduction**	**1**
02	**Strategic investment policy and objectives**	**2**
03	**Responsible investment**	**4**
04	**Risk measurement and management**	**5**
05	**Realisation of assets and investment restrictions**	**6**
06	**Investment Manager Arrangements and fee structure**	**7**
08	**Compliance Statement**	**9**
	Appendix I **Investment Strategy & Structure**	10
	Appendix II **Fund benchmarks, objectives & fees**	10

01 **Introduction**

Purpose

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the National Deposit Friendly Society Staff Superannuation Fund ('the Fund'). It describes the investment policy being pursued by the Trustee of the Fund and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005 (as amended).

Fund details

The exclusive purpose of the Fund is to provide retirement and death benefits to eligible participants and beneficiaries. It qualifies as a registered pension fund, registered under Chapter 2 of Part 4 of the Finance Act 2004.

Advice and consultation

Before preparing this Statement, the Trustee has sought advice from the Fund's Investment Consultant, XPS Investment Limited. The Trustee has also consulted the Principal Employer. The Trustee will consult the Principal Employer on any future changes in investment policy as set out in this Statement.

Investment powers

The Fund's Trust Deed and Rules set out the investment powers of the Trustee. This Statement is consistent with those powers. Neither this Statement nor the Trust Deed and Rules restricts the Trustee's investment powers by requiring the consent of the Principal Employer.

In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy but delegates responsibility for the selection of the specific securities and any financial instruments in which the Fund invests to the Investment Managers.

Review of the Statement

The Trustee will review this Statement and its investment policy at least every three years in conjunction with each triennial valuation or immediately following any significant changes in investment policy.

The Trustee will also review this Statement in response to any material changes to any aspect of the Fund, its liabilities, finances and attitude to risk of either the Trustee or Principal Employer which it judges to have a bearing on the stated investment policy.

The Trustee will receive confirmation of the continued appropriateness of this Statement from the Fund's Investment Consultant annually, or more frequently, if appropriate.

Definitions

Capitalised terms in this document mean the following:

Act - The Pensions Act 1995 (as amended by section 244 of the Pensions Act 2004);

AVCs - Additional Voluntary Contributions;

Investment Manager – An organisation appointed by the Trustee to manage investments on behalf of the Fund;

Principal Employer – National Deposit Friendly Society Limited;

Recovery Plan - The agreement between the Trustee and the Principal Employer to address the funding deficit;

Fund – National Deposit Friendly Society Staff Superannuation Fund;

Statement - This document, including any appendices, which is the Trustee's Statement of Investment Principles;

Technical Provisions - The amount required, on an actuarial calculation, to make provision for the Fund's liabilities;

Trust Deed and Rules - the Fund's Trust Deed and Rules last updated at 15 June 2006;

Trustee – the collective entity responsible for the investment of the Fund's assets and managing the administration of the Fund;

Value at Risk - a technique which uses historical correlations of asset class returns and volatilities to estimate the likely worst-case scenario loss for a given portfolio of assets.

02 Strategic investment policy and objectives

Choosing investments

The Trustee relies on and delegates to professional Investment Managers for the day-to-day management of the Fund's assets. However, the Trustee retains control over some investment decisions. In particular, the Trustee makes decisions about the selection of pooled investment vehicles in which the Fund invests.

The Trustee's policy is to regularly review the investments over which it retains control and to obtain written advice about them when necessary. When deciding whether or not to make any new investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the Investment Managers. The written advice will consider suitability of the investments, the need for diversification and the principles within this Statement. The adviser will have the knowledge and experience required under Section 36(6) of the Act.

Long-term objectives

The primary investment objective of the Trustee is to seek to ensure the Fund is able to meet the benefit payments promised as they fall due from a combination of investment returns and planned contributions.

The Fund's Statutory Funding Objective (measured on an ongoing basis) is updated regularly in accordance with regulations. The SIP has been drawn up to take into account the investment returns assumed in the Statutory Funding Objective and outlined in the Fund's Statement of Funding Principles.

In the Fund's actuarial valuation dated 31 December 2019, the discount rate employed is the Bank of England nominal spot yield curve at the appropriate duration of each member payment which is incorporated into a full yield curve valuation. The valuation funding basis is Gilts + 0%.

The Trustee aims to hold a portfolio of assets that will achieve returns in excess of investment returns indicated in the Statement of Funding Principles, without exposing the Fund to excessive risk.

Expected returns

By undertaking the investment policy described in this Statement, the Trustee expects future investment returns will at least meet the rate of return underlying the Recovery Plan.

Investment policy

Following advice from the Investment Consultant, the Trustee has set the investment policy and objectives with regards to the Fund's liabilities and funding level.

The Trustee intends to achieve these objectives through investing in a range of assets e.g., index-linked gilts, fixed interest gilts and corporate bonds. The Trustee has begun transitioning the assets into a Buy Out ready strategy. The current objective of the investment strategy is to reduce the Fund's funding level volatility on a low dependency basis. The mixture of asset classes should achieve this objective whilst providing the level of returns required by the Fund to meet its liabilities at an acceptable level of risk for the Trustee, and an acceptable level of cost to the Principal Employer.

The investment policy the Trustee has adopted is detailed in Appendix I. The specific Investment Manager mandates against which performance of the assets will be assessed are specified in Appendix II.

Range of assets

The Trustee considers that the combination of the investment policy detailed in Appendix I. and the specific manager mandates detailed in Appendix II will ensure that the assets of the Fund include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the Trustee's objectives whilst avoiding an undue concentration of assets.

Strategic investment policy and objectives continued

Range of assets

Based on the structure set out in Appendix I, the Trustee considers the arrangements with the Investment Managers to be aligned with the Fund'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 Fund is invested.

The Trustee will ensure that the Fund'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 because their continued involvement as Investment Managers as part of the Fund's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations, including the selection / deselection criteria set out in Section 6.

The Trustee encourages the Investment Managers to make decisions in the long-term interests of the Fund. The Trustee expects engagement with management of the underlying issuers of debt or equity 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 in Section 3, the Trustee also requires the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making. The Trustee believes these factors could have a material financial impact in the long-term. The Trustee makes decisions about the retention of Investment Managers, accordingly.

03 **Responsible investment**

The Trustee has considered their approach to environmental, social and corporate governance ("ESG") factors for the long-term time horizon of the Fund 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 Fund's Investment Managers. The Trustee requires the Fund'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 Fund invests in pooled funds, the Trustee acknowledges that it cannot directly influence the policies and practices of the companies in which the pooled funds invest. It has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Fund's investments to the Investment Managers.

The Trustee encourages the Investment Managers 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 the Investment Managers engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustee's expectation and the investment mandate guidelines provided, 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 Fund, although it has neither sought, nor taken into account, the beneficiaries' views on non-financial matters including (but not limited to) ethical issues and social and environmental impact. The Trustee will review this policy if any beneficiary's views are raised in future.

04 Risk measurement and management

The Trustee recognises a number of risks involved in the investment of the assets of the Fund. The Trustee measures and manages these risks as follows:

Solvency risk and mismatching risk - The risk that the assets do not respond to market changes in the same way as the liabilities, resulting in volatility in the funding position, is addressed through the strategic asset allocation and through ongoing triennial actuarial valuations. In setting the investment strategy, the Trustee will consider (for example) the Value at Risk.

Strategy risk - The risk that the Investment Managers' asset allocation deviates from the Trustee's investment policy is addressed through regular review of the asset allocation. In reviewing the investment strategy on a periodic basis, the Trustee will consider the current economic factors affecting the asset classes in which it has invested and the short to medium term outlook for performance by reference to e.g. current and historic yields, GDP growth forecasts and other relevant factors. The Trustee will also consider how far the actual asset allocation has drifted from the strategic asset allocation and take action to rebalance if necessary.

Liquidity risk - The risk that assets cannot be sold quickly enough to enable benefits to be paid or that the Trustee cannot exit a particular investment is addressed through the process by which the administrator estimates the benefit outgo and ensures that sufficient cash balances are available, and through the Trustee's policy on realisation of assets (see below).

Inappropriate investments - The risk that an Investment Manager invests in assets or instruments that are not considered to be appropriate by the Trustee is addressed through the Trustee's policy on the range of assets in which the Fund can invest (see section 2). Whilst the Trustee accepts the need for diversification it recognises that some types of investment could be considered unsuitable. These include: Investment in unlisted securities; Use of derivatives (except when entered into with appropriate safeguards); Illiquid investments; Cash deposits with institutions with inadequate credit ratings. The Trustee has considered these investments in conjunction with the Investment Managers and are satisfied that appropriate precautions are in place.

Political risk - The risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

Custodian risk - The risk that the custodian fails to provide the services expected is addressed through the agreement with the third-party custodian and ongoing monitoring of the custodial arrangements. In pooled arrangements this is invariably delegated to the Investment Managers.

Manager risk - The risk that an Investment Manager fails to meet their stated objective is addressed through the performance objectives set out in Appendix II and through the monitoring of the Investment Managers as set out in section 6. In monitoring the performance of the Investment Managers, the Trustee measures the returns relative to the benchmark, objective and the volatility of returns. In addition, the Trustee will regularly review each Investment Manager's approach to risk within each fund in order to highlight any unintended risk being taken.

Fraud/Dishonesty - The risk that the Fund assets are reduced by illegal actions is addressed through restrictions applied as to who can authorise transfer of cash and the account to which transfers can be made.

Currency risk – The risk of losses through depreciation of non-sterling currencies is measured by reference to the exposure of the Fund to pooled funds with unhedged currency risk and is managed by investing predominantly in sterling assets and only taking currency risk where it increases the level of diversification.

05 Realisation of assets and investment restrictions

Realisation of investments

In recognition of the fact that funds may need to be realised for a number of unanticipated reasons at any time, and the desirability of retaining as high a degree of flexibility as possible to cater for unexpected changes in circumstances, the Trustee will monitor closely the extent to which any assets not readily realisable are held by the Investment Managers and will limit such assets to a level where they are not expected to prejudice the proper operation of the Fund.

The Trustee has considered how easily investments can be realised for the types of assets in which the Fund is currently invested. As such, the Trustee believes that the Fund currently holds an acceptable level of readily realisable assets. Notice for realisation of assets can be given on any working day for any amount. The Trustee will also take into account how easily investments can be realised for any new investment classes it considers investing in, to ensure that this position is maintained in the future.

The Trustee will hold cash to the extent that it considers necessary to meet impending anticipated liability outflows, having regard to the Fund's likely cash flow requirements in order to minimise the likelihood of having to realise investments when market conditions are unfavourable. A bank account is used to facilitate the holding of cash awaiting investment or payment. In order to meet the Fund's benefits, regular disinvestment of assets takes place. The funds from which disinvestments are made will be influenced by market conditions and the asset distribution at that time.

Investment restrictions

The Trustee has established the following investment restrictions:

> The Trustee or the investment managers may not hold the Fund's assets in investments related to the Principal Employer;

> Whilst the Trustee recognises that borrowing on a temporary basis is permitted, this option will only be utilised where it is deemed absolutely necessary or where the Trustee has received advice from the Investment Consultant that the Fund's overall exposure to risk can be reduced through temporary borrowing, e.g. during an asset transfer;

> Investment in derivative instruments may be made only insofar as they contribute to the reduction in risk or facilitate efficient portfolio management.

The Investment Managers impose internal restrictions that are consistent with their house style. In some instances, the Trustee may impose additional restrictions and any such restrictions are specified in Appendix II.

06 Investment Manager arrangements and fee structure

Delegation to Investment Managers

In accordance with the Act, the Trustee has appointed four Investment Managers and delegated to them the responsibility for investing the Fund's assets in a manner consistent with this Statement.

The Trustee has engaged BlackRock Investment Management (BR), Fidelity Investment Managers (FIL), Legal & General Investment (LGIM), and Standard Life Investments Limited (SLI) to manage the assets of the Fund as Investment Managers. The Investment Managers are authorised and regulated to provide investment management services to the Fund. Within the UK, the authorisation and regulation of the Investment Managers falls under the Financial Conduct Authority (FCA). Specific products in which the Fund invests may also be regulated by the Prudential Regulatory Authority (PRA). For non-UK Investment Managers, authorisation and regulation is undertaken by the home state regulator.

Where Investment Managers are delegated discretion under section 34 of the Pensions Act 1995, the Investment Managers will exercise their investment powers with a view to giving effect to the principles contained in this Statement so far as reasonably practicable. In particular, the Investment Managers must have regard to the suitability and diversification of the investments made on behalf of the Fund.

The Investment Managers will ensure that suitable internal operating procedures are in place to control individuals making investments for the Fund.

Performance objectives

The individual benchmarks and objectives against which each investment mandate is assessed are given in Appendix II.

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.

In addition, any significant changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. 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.

Investment 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.

Selection / Deselection criteria

The criteria by which the Trustee will select (or deselect) the Investment Managers include:

> Parent - Ownership of the business;

> People - Leadership/team managing the strategy and client service;

> Product - Key features of the investment and the role it performs in a portfolio;

> Process - Philosophy and approach to selecting underlying investments including operational risk management and systems;

> Positioning - Current and historical asset allocation of the fund;

> Performance - Past performance and track record;

> Pricing - The underlying cost structure of the strategy;

> ESG – Consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.

An Investment Manager may be replaced, for example (but not exclusively), for one or more of the following:

> The Investment Manager fails to meet the performance objectives set out in Appendix II;

Investment Manager arrangements and fee structure continued

> The Trustee believes that the Investment Manager is not capable of achieving the performance objectives in the future;
> The Investment Manager fails to comply with this Statement.

Investment Managers' fee structure

The Investment Managers are remunerated by receiving a percentage of the Fund's assets under management and, in some cases, through the application of a flat fee. Details of the fee arrangements are set out in Appendix II. It is felt that this method of remuneration provides appropriate incentives for the Investment Managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustee.

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.

Investment Consultant's fee structure

The Investment Consultant is remunerated for work completed on a fixed fee basis, a time-cost basis or via a project fee. It is felt that this method of remuneration is appropriate because it enables the Investment Consultant to provide the necessary advice and information to facilitate the Trustee in undertaking their responsibilities.

07 Compliance statement

Confirmation of advice

Before a Statement of Investment Principles, as required by the Pensions Act 1995, is prepared or revised by the Trustee of a pension scheme, they must have consulted with the Principal Employer and obtained and considered the written advice of a person who is reasonably believed by it to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes.

The Investment Consultant hereby confirms to the Trustee that they have the appropriate knowledge and experience to give the advice required by the Act.

Tom Fallon, CFA

Consultant - Investment

Trustee' declaration

The Trustee confirms that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustee acknowledges that it is its responsibility, with guidance from the Advisers, to ensure the assets of the Fund are invested in accordance with these Principles.

On behalf of the Trustee:

Date:

Appendix I
Investment strategy & structure

Overall strategy

The Trustee has adopted a strategy where assets are predominately invested in gilts and corporate bonds.

The following structure represents the current investment allocation. This may be subject to change as the Fund's long term objectives are reviewed:

Asset Class	Allocation as at 31 December 2022 (%)
Matching Assets Index-Linked Gilt Funds Cash Funds	 44 22
Credit Assets Corporate Bonds	 34
Total	**100.0**

Matching assets

The Fund invests 66% of its assets in matching funds that aim to hedge a proportion of the interest rate and inflation exposure of the Fund's liabilities, as well as provide liquidity for the Scheme.

Credit assets

The Fund has a 34% allocation to credit assets that provide some liability matching characteristics whilst providing an expected return over gilts to help achieve the required level of investment returns.

Rebalancing and cashflow

The Trustee reviews the asset allocation on a periodic basis to ensure that the Fund's assets are allocated in a manner that is consistent with the objectives as detailed in this Statement.

There is no automatic rebalancing back to the target, however the Trustee will periodically review the position and take action to rebalance if considered appropriate.

Appendix II
Fund benchmarks, objectives & fees

Fund	Objective	Annual Management Charges (AMCs) and estimate of additional fund expenses
Fidelity Sterling Corporate Bond Fund W-Acc	The fund aims to deliver an income with the potential to increase the value of investments.	0.43% p.a.
Fidelity Index-Linked Bond Fund I-Acc	The fund aims to deliver an income with the potential to increase the value of investments.	0.33% p.a.
Fidelity Cash Fund W-Acc	The fund aims to maintain the value of your investment and pay an income.	0.15% p.a.
BlackRock Aquila Life 5-15 Year UK Gilt Index Fund S1	The fund aims to achieve a return consistent with the FTSE Actuaries UK Conventional Gilts over 15 Years Index, which is widely regarded as the benchmark for UK pension fund investment in the longer dated end of the UK gilt market.	On first 15 million GBP 0.08% p.a. On next 85 million GBP 0.04% p.a. Thereafter 0.03% p.a.

Charges have been provided by Fidelity and BlackRock.
Please note the scheme holds a notional holding in the BlackRock Aquila Life Over 15 Year UK Gilt Index Fund, which is required to keep the account open and still permits access to the fund for any future investments.

Contact us
xpsgroup.com

XPS Pensions Consulting Limited, Registered No. 2459442.

XPS Investment Limited, Registered No. 6242672.

XPS Pensions Limited, Registered No. 3842603.

XPS Administration Limited, Registered No. 9428346.

XPS Pensions (RL) Limited, Registered No. 5817049.

Trigon Professional Services Limited, Registered No. 12085392.

All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

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

An XPS Group Company