

National Oilwell (UK) Limited Pension Plan

# **Statement of Investment Principles**

September 2020

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This document is the Statement of Investment Principles for the National Oilwell (UK) Limited Pension Plan (the Plan). The requirement for the Trustees of the Plan to have such a Statement in place was introduced by the Pensions Act 1995. The Statement comprises the following sections and appendices:

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# Section 1: Introduction

## Pensions Act

- 1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment policy pursued by the Trustees of the National Oilwell (UK) Limited Pension Plan (the Plan).

## Background

- 1.2 Before preparing this document, the Trustees have consulted the employer and will also consult the employer before revising this document, in particular, if it relates to changes in investment policy. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.
- 1.3 Before preparing this document, the Trustees have sought advice from the Plan's investment consultants, Willis Towers Watson. The Trustees have also provided a copy to the Plan's investment managers. The Trustees will review this document, in consultation with the Scheme Actuary and investment consultant (if appropriate), at least once a year, or sooner following an unscheduled actuarial valuation, or without delay following a significant change in investment policy. Before preparing this document the Trustees have had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustees will consider those requirements on any review of this document or any change in their investment policy. The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.
- 1.4 This document has been drafted in the light of the Myners' Review and specifically Myners' recommendations relating to the content of Statements of Investment Principles.

## Plan details

- 1.5 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.
- 1.6 Since 6 April 2006, the Plan has been treated by HM Revenue and Customs (HMRC) as a registered pension scheme, in accordance with Schedule 36 of the Finance Act 2004.
- 1.7 The Plan was closed to future pension accrual with effect from 30 June 2012 but certain members' pensions are still linked to their salary at the earlier of their leaving service or retirement.

- 1.8 The Plan is managed by the Trustees who are responsible for the investment of the Plan's assets.

### **Financial Services and Markets Act**

- 1.9 In accordance with the Financial Services and Markets Act 2000 and section 36 of the Pensions Act 1995, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers, which may include an insurance company or companies. The investment manager shall provide the skill and expertise necessary to manage the investments of the Plan competently.

## Section 2: Governance

- 2.1 The Trustees have ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustees delegate some of these responsibilities.
- 2.2 Responsibility for all day-to-day investment decisions is delegated to the Plan's investment managers. The Trustees retain direct responsibility for other investment matters which include:
- Reviewing annually, or following any significant change in investment policy, the content of this Statement of Investment Principles and for modifying it if deemed appropriate, in consultation with the investment consultant and Scheme Actuary.
  - Reviewing the investment policy following the results of each actuarial review, in consultation with the investment consultant and Scheme Actuary.
  - Appointing (and dismissing) investment managers.
  - Assessing the quality of the performance and processes of the investment manager by means of regular, but not less than annual, reviews of the investment results and other information, in consultation with the investment consultant and Scheme Actuary.
  - Consulting with the employer before amending this Statement.
  - Strategically allocating the assets and the cash flow of the Plan between investment mandates and making periodic adjustments to the portfolio allocations.
  - Monitoring compliance with this Statement on an ongoing basis.
  - Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments.
- 2.3 Decisions affecting the Plan's investment strategy should be taken with appropriate advice from the Scheme Actuary and investment consultant and the Trustees' other advisers as appropriate.
- 2.4 The Trustees are satisfied that they have sufficient expertise and appropriate training to evaluate critically the advice they receive. The Trustees are also satisfied that they have an appropriate set of skills individually and collectively, and the right structures and processes, to carry out their role effectively.
- 2.5 Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Plan. The Trustees of the Plan draw on the skills and expertise of external advisers including the investment managers, custodians, investment consultant and Scheme Actuary. The Trustees are aware that they have the flexibility to open the contracts for actuarial services and investment advice to separate competition.

- 2.6 In line with the Myners Principles, the Trustees have reviewed the appointment of an investment committee. The Trustees have decided to retain all investment governance within the full Trustee group at the present time, although the suitability of this arrangement will be reviewed from time to time. However, the Trustees recognise the need for expertise and appropriate, expert advice and they will seek further training, and scheme-specific advice, as required.

## Section 3: Division of responsibilities

### Investment managers

- 3.1 As set out in Section 6, the liability matching assets are either passively measured or held as insurance policies. The return-seeking assets use a combination of passive investments ('beta') and 'smart beta' approaches across a range of asset classes. Smart beta strategies seek to passively follow indices, while also taking into account alternative weighting schemes such as volatility. Smart beta strategies are implemented like a typical index strategy In that index rules are set and transparent. However, smart beta strategies differ from standard passive funds in that the indices focus on areas of the market that offer an opportunity for exploitation. The investment managers' responsibilities include:
- Tracking the relevant benchmark returns within an appropriate tracking error
  - Providing the Trustees with quarterly statements of the assets along with a quarterly report on actions and future intentions, and any changes to the investment processes applied to their portfolios
  - Informing the Trustees of any material changes in the internal objectives and guidelines of any pooled funds used by the Plan and managed by the investment manager or an associated company

### Investment consultant

- 3.2 The role of the investment consultant is to make recommendations or give advice to the Trustees in the following areas:
- the formulation of an efficient governance structure particularly in the light of the Myners Review
  - the regular updating of the Statement of Investment Principles
  - the development of a clear investment strategy for the Plan
  - the asset-liability modelling process
  - the construction of a strategic asset allocation benchmark given the liabilities of the Plan and the risk and return objectives of the Trustees
  - the construction of an overall investment management structure that meets the objectives of the Trustees
  - the selection, appointment and deselection of appropriate investment management organisations
  - the consultant's current views of the investment managers employed by the Plan
  - potential new areas or tools of investment such as hedge funds, currency hedging, interest rate swaps etc

- commentary on investment performance and risk taken by the managers
  - trustee education
  - general advice in respect of the Plan's investment activities
- 3.3 Fees are generally calculated by reference to the time spent on a particular assignment and the relevant charge-out rates applying to the associates who provide the services in question.

### **Scheme Actuary**

- 3.4 The Scheme Actuary's responsibilities include:
- Performing the triennial (or more frequently, as required) valuations of the Plan and advising on the appropriate contribution levels for the future.
  - Reviewing the impact on the Plan's funding position of any investment changes made. (The Trustees and Company have agreed a dynamic de-risking process as detailed in Section 4 and the Scheme Actuary will check on any contribution requirements before a switch is implemented.)
  - Liaising with the investment consultant on the suitability of the Plan's investment strategy given the financial characteristics of the Plan.



# Section 4: Objectives and long term policy

## Objectives

4.1 The Trustees have the following investment objectives:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Company, the cost of benefits which the Plan provides.
- To limit the risk of the assets failing to meet the liabilities over the long term.
- To minimise the long term costs of the Plan by maximising the return on the assets whilst having regard to the objectives shown.

## Policy

4.2 The Trustees' policy is to seek to achieve the objectives through investing in a suitable mixture of return-seeking and liability matching assets. They recognise that the returns on return-seeking assets, while expected to be greater over the long term than those on liability matching assets, are likely to be more volatile. A mixture across asset classes is targeted to provide the level of returns required by the Plan to meet its liabilities at an acceptable level of risk for the Trustees and an acceptable level of cost to the Company.

4.3 Having taken appropriate actuarial advice, the Trustees are of the opinion that the asset allocation detailed in 5.1 is appropriate in the current circumstances, but will be reviewed regularly, with a detailed review normally taking place following each triennial actuarial valuation.

## Future de-risking

4.4 The Trustees have established a de-risking strategy, agreed with the Company, which is underpinned by a desire to be fully-funded based on a portfolio of low-risk assets that are expected over the long-term to provide an annual return in line with UK Government Bond yields plus a margin of 0.15% (the "self-sufficiency basis" or the "journey plan basis"). The desire is for this to be achieved by dynamic de-risking, whereby a de-risking action will be taken if and when the funding level of the Plan is identified (through frequent monitoring) as being ahead of schedule versus the projected position on the self-sufficiency journey plan. Effectively, the dynamic de-risking would aim to 'lock in' any material upside gains.

*Dynamic de-risking triggers*

4.5 The agreed dynamic de-risking triggers are set out below:

	31 March 2015 position	Trigger 1	Trigger 2	Trigger 3	Trigger 4	Trigger 5
Self-sufficiency funding level	88%	92%	95%	97%	99%	100%
On or before:	n/a	30 April 2016	31 May 2017	30 June 2018	31 July 2019	30 December 2019
Return-seeking proportion (post investment switch)	50%	45%	40%	35%	30%	25%

- 4.6 As at 17 July 2017, Trigger 2 was reached and so the Plan has a 40% return-seeking proportion.
- 4.7 Assets to be sold and bought in the event of a trigger being hit will be reviewed periodically. At the current time, if a trigger is hit, the agreed approach would be to switch 5% from return-seeking assets into index-linked bonds..
- 4.8 In advance of a trigger being hit, the self-sufficiency position will be monitored and the necessary paperwork prepared so that the switch can be made without unnecessary delay if a trigger is hit.
- 4.9 In particular, if the funding position reaches within 1% of the agreed trigger, a conference call between the Trustees, Company and their advisers will be arranged to confirm the intended de-risking, in preparation for if and when the trigger is reached. The parties will aim to hold the conference call within 5 working days. During the call, when considering the intended approach, the Trustees will take into account wider market conditions and other relevant considerations at that time, including any potential contribution implications.
- 4.10 If a trigger is subsequently hit, the current intention is that the return-seeking asset allocation will be reduced by 5% as outlined above, subject to a final high level review and sign off. The Trustees, Company and their advisers will aim to hold a conference call within 5 working days to review and sign-off. On the conference call, the funding level will be confirmed and a final decision will be made whether to go ahead with the proposed switch. If there is agreement to go ahead, paperwork would then be issued for signing to implement the de-risking.

*Dynamic re-risking triggers*

- 4.11 The Trustees and Company have also agreed re-risking (downside) triggers.
- 4.12 The Trustees will monitor both upside and downside triggers. The downside trigger level is equal to the preceding trigger point.
- 4.13 With regard to the actions to be taken in preparation for and following a downside trigger being hit, a similar approach would be adopted as outlined above in relation to upside triggers, except that the switch (if a trigger is hit and a decision is taken to proceed) would be from liability matching to return-seeking assets.

*Future review*

- 4.14 The journey plan will operate on an informal basis and may therefore, and indeed it is the intention to, review it from time to time (for example, following each actuarial valuation) to ensure it remains appropriate. In particular, once a trigger is reached, the Trustees and Company will review the next trigger to ensure it remains appropriate.

**Expected return on investments**

- 4.15 In setting the Plan's asset allocation policy, the Trustees' aim is that the returns on investment enable the Plan to fund the benefit provisions to members. For this purpose the Trustees have had regard to the actuarial valuation approach which is used to determine Company contributions, including in particular an expected higher return on equity investments than on bonds, and to the historical rates of return earned on the various classes of assets available for investment.
- 4.16 The relative risks and returns of different classes of investment are reviewed at intervals by the Trustees, based in part on asset liability modelling following each actuarial valuation.

**AVCs**

- 4.17 Before closing to accrual, the Plan provided a facility for members to pay AVCs into the Plan to enhance their benefits at retirement. Members are offered a range of funds in which to invest the AVC payments they made prior to closure. The Trustees have selected a range of Standard Life pooled funds which will provide an appropriate choice for members. The range of funds offered includes balanced managed funds, equity funds, bond funds, with-profit funds, property and cash deposit funds.
- 4.18 The Trustees monitor the investment performance and review the appropriateness of the arrangements which the AVC facility provides from time to time.

## Socially responsible investments and non-financial matters

- 4.19 *Environmental, Social and Governance (ESG) considerations:* The Trustee recognises that long-term sustainability issues have a material impact on risk and outcomes, both financial and non-financial. The Trustee believes that ESG factors, including climate change, affect risk and return in the medium to long-term, and as such should be taken into account when reviewing current and new investment opportunities. To the extent possible, the Trustees will delegate the responsibility to take ESG principles into account to its investment managers when selecting, retaining and realising investments within their portfolios, and will periodically review these policies with the assistance of its investment adviser and engage with its investment managers as appropriate. The managers have produced statements setting out their policy in this regard. The Trustee acknowledges that they act on behalf of the Scheme's members in relation to ESG principles, and whilst they may not specifically ask for member views, they may re-visit this statement from time-to-time as deemed appropriate.

## Rights attaching to investments and engagement activities

- 4.20 *Exercise of Voting Rights:* The Trustee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their process and practice in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies and to engage with the organisations with whom they invest.

## Engagement with investment managers, including policies on alignment, incentivisation and monitoring

- 4.21 To maintain alignment with the Trustee's overall investment objectives and policies (including the Trustee's views on sustainable investments), the investment managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question. This incentivises managers to maintain alignment in order to maintain their appointments, noting that the use of pooled funds places limitations on this.
- 4.22 The Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods and investment managers are selected with this in mind. Managers are incentivised to do this in order to maintain their appointments. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.
- 4.23 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.
- 4.24 The Scheme uses many different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question.

- 4.25 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The fees are reviewed on an annual basis throughout their appointment. The Trustee also monitors portfolio turnover costs as part of its monitoring of investment performance, with advice from the investment consultant. The Trustee does not have its own target for the turnover over assets, given the use of pooled funds.
- 4.26 Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

### **Realisation of assets**

- 4.27 The majority of stocks held by the Fund's investment managers are quoted on major stock markets and may be realised quickly if required.

## Section 5: Asset allocation guidelines

### Asset allocation

5.1 The Trustees believe that the following strategic plan-specific asset allocation is currently appropriate for the Plan:

	Asset Allocation %	Fund benchmark
Diversified return-seeking assets	40.00	MSCI AC World GBP Hedged*
Insurance policies	57.50	-
UK Index linked gilts	2.50	FTSE-A UK Gilts Index-Linked Over 5 years
Total	100.00	

\*The return-seeking asset fund does not have a strict benchmark as such. However, the benchmark detailed is an appropriate equity market comparator for reference over the long-term. The return-seeking assets aim to provide equity-type returns over the long-term but with lower volatility.

5.2 The Trustees will review the allocation between return-seeking and liability matching assets no less frequently than each Trustee meeting. The Trustees may trade assets in order to re-balance the allocation between return-seeking and liability matching assets, for example in the event of a significant departure from the strategic benchmark.

5.3 It is the intention of the Trustees to review the asset allocation of the Plan every three years following each actuarial valuation. In addition, the Trustees will monitor the position on an annual basis.

5.4 An investment study will be considered every three years to examine and quantify the implications of different investment policies and to identify an appropriate asset allocation given the Plan's particular liabilities. This study will specifically address the optimum split that should be adopted between bonds and return-seeking assets to achieve higher returns at an acceptable level of risk.

### Diversification

5.5 The Plan's strategic asset allocation (see 5.1 above) is designed to ensure that the Plan's investments are adequately diversified by asset class. Since the Plan is invested in pooled funds, the Trustees cannot influence directly the concentration of investments at a stock selection level.

## Suitability

- 5.6 The Trustees have taken advice from the Scheme Actuary and the investment consultant and considers that the asset allocation specified above is suitable for the Plan given its liability profile.

## Liquidity

- 5.7 The Trustees on the recommendation of the Plan's administrators, will ensure that they hold sufficient cash to meet the likely benefit outflows from time to time. Where income from insurance policies are insufficient to meet benefit payments and contributions and investment income are insufficient to meet other expenditure, the Trustees will disinvest assets from the manager at their discretion, with the general aim of maintaining the strategic asset allocation.

## Section 6: Investment manager arrangements

- 6.1 The Trustees considered the use of both passive and active investment management when reviewing the Plan's strategy. The resultant use of fully passive ('beta') and smart beta management for all invested assets was determined following consideration of the relative levels of risk involved, set against the efficiency, liquidity and level of transaction costs likely to prevail within each market, allowing for investment manager fees.

### Manager structure

- 6.2 The assets are passively managed and invested in Legal & General passive funds for gilts and Towers Watson's Core Diversified Fund for return-seeking assets. The Trustees' policy is to obtain ongoing and regular advice on whether these funds are satisfactory as required by the Pensions Act.
- 6.3 In addition, the Plan holds an insurance (bulk annuity) policy with Just, in respect of certain pensioner members of the Plan. This policy is held as an investment of the Plan and is not assigned to individual members.
- 6.4 The Trustees have selected Standard Life as the provider for members' AVC investments. Standard Life's appointment will also be kept under regular review.

### Performance objectives

- 6.5 Whilst the Trustees are not involved in the investment managers' day to day method of operation and therefore cannot directly influence attainment of the performance target, they will assess performance on an annual basis, with interim monitoring quarterly. Measurable objectives have been developed for the fund managers, consistent with the achievement of the Plan's longer term objectives. These are set out in 5.1.

### Manager monitoring

- 6.6 The appointment of the investment managers will be reviewed by the Trustees from time to time, based on the results of their monitoring of performance and investment process, the Trustees' confidence that the manager can continue to fulfil their mandate in the future and of the managers' compliance with the requirement in the Pensions Act concerning diversification and suitability, where relevant. The managers have been provided with a copy of this Statement and the Trustees will monitor the extent to which the managers give effect to the policies set out in it and in conjunction with the Trustee's engagement policy set out in section 4.21 to 4.26.



## **Fee structures**

- 6.7 The Trustees have agreed fees with the investment managers based on the value of the Plan's assets.

## Section 7: Risk management

7.1 The Trustees recognise a number of risks involved in the investment of the assets of the Plan and will continue to monitor these risks, making investment adjustments as appropriate.

- Solvency risk and mismatching risk
  - are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies
  - are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
- Manager risk
  - is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy
  - is managed by the selection of passive managers and by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.
- Liquidity risk
  - is measured by the level of cashflow required by the Plan over a specified period
  - is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- Custodial risk
  - is addressed through investment in pooled vehicles, with the investment managers responsible for selection of suitable custodians. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.
- Political risk
  - the risk of an adverse influence on investment values from political intervention is reduced by the diversification of the assets across many countries
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

- Sponsor risk
  - is measured by the level of ability and willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit
  - is managed by monitoring the interaction between the Plan and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.
- Currency risk
  - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values
  - is managed by reducing the translation risk of investing overseas by hedging a proportion of the overseas investments' currency translation risk for those overseas currencies that can be hedge efficiently. The Trustees understand that exchange rate movements could reduce the returns on the Plan's overseas investments. Currently, the Trustee is comfortable in carrying this risk.
- Longevity risk
  - Is partially mitigated through the use of insurance policies. As the Plan de-risks, longevity risk will become a large proportion of the Plan's overall risk. As this happens the trustees will look to take steps to mitigate this risk, for example through further buy-in(s).

7.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.