

Nike (UK) Limited Retirement Benefits Scheme ("the Scheme")

Statement of Investment Principles (the "Statement")

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is 30 September 2020. The Trustees will review this Statement and the Scheme's investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

Consultations made

The Trustees have consulted with the employers, Nike (UK) Limited and Nike Retail Bv (UK) Branch, prior to writing this Statement and will take the employers' comments into account when it believes it is appropriate to do so.

The Trustees are responsible for the investment strategy of the Nike (UK) Limited Retirement Benefits Scheme. The Trustees have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited ("Aon"), who are authorised and regulated by the Financial Conduct Authority.

Process For Choosing Investments

The day to day management of the Scheme's DB assets has been delegated to Mercer Limited ("Mercer") to act as discretionary investment manager; an approach known as Mercer's Dynamic De-Risking Solution ("MDDS"). A copy of this Statement has been provided to Mercer and is available to the members of the Scheme. Under MDDS, the Trustees, following advice from Aon, set specific funding objectives for the Scheme.

Mercer then implement the Trustees' strategy whereby the level of investment risk reduces as the Scheme's funding level improves. In this capacity, and subject to agreed restrictions, Mercer manage the Scheme's assets in a range of pooled funds which can include multi-asset, multi-manager, private markets and specialist liability matching funds. Mercer conduct the necessary day to day management of the Scheme's assets required to meet the Scheme's objectives and use a range of underlying investment managers.

The Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds"). The Mercer Funds are domiciled in Ireland (for traditional asset classes) and in Luxembourg (for private markets assets). The Ireland-domiciled collective investment schemes are managed by a management company (Mercer Global Investments Management Limited ("MGIM")) and the Luxembourg-domiciled funds are managed by Mercer Alternatives (Luxembourg) S.à r.l. and, respectively, these entities have appointed Mercer Global Investments Europe Limited ("MGIE") and Mercer Alternatives AG ("Mercer AG") as investment managers of the Mercer Funds.

In practice, assets in the Mercer Funds are invested with third party fund managers based in countries such as Ireland, UK and USA. Mercer and its affiliates have expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis.

Objectives and policy for securing objectives

The Trustees' primary objectives are:

- "funding objective" - to ensure that the Scheme is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy; and
- "security objective" – to ensure that the solvency position of the Scheme (as assessed on a gilt basis) is expected to improve. The Trustees will take into account the strength of the employer's covenant when determining the expected improvement in the solvency position of the Scheme.

The Trustees recognise that these objectives may conflict. For example, a greater allocation to more defensive assets may give greater security, but may result in a level of contributions which the employer may find too difficult to support. The Trustees also recognise that, in resolving this conflict, it is necessary to accept some risk.

The priority of these objectives will vary at different points of time. The investment strategy chosen by the Trustees has the aim of maximising the likelihood of achieving these objectives.

Choosing investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cash flow requirements, the funding level of the Scheme and the Trustees' objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment (or delegation where these powers have been delegated to an investment manager) in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk, a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to cover the Scheme's technical provisions (a valuation of the liabilities of the Scheme) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly on regulated markets (i.e. a market over which a government body, such as the Financial Conduct Authority, exerts a level of oversight and control), with investments not on regulated markets (for instance, some derivatives) being kept to a prudent level. The assets of the Scheme are also properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings, so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The balance between different kinds of investments

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation. The Trustees therefore retain the decision making around the type of assets that can be invested and the split between growth and matching assets.

The Trustees review their investment strategy in conjunction with each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). The Trustees take written advice from their professional advisers regarding an appropriate investment strategy for the Scheme, taking into account the liability profile and funding level of the Scheme and the size and incidence of employer contributions.

The broad asset allocation set out in the Appendix was agreed in February 2020 after considering a review of the Scheme's long-term investment strategy objective and following the results of the actuarial valuation with an effective date of 1 August 2017.

The Scheme invests in a range of pooled funds comprising a wide range of asset classes, which provides a well-diversified portfolio. The MDDS solution ensures that a range of asset classes are available including, but not exclusively restricted to, equities, bonds and so called "alternative" asset classes (which include Multi-Asset Credit, Emerging Market Debt, Private Markets and Property).

Under MDDS, the Trustees stipulate the overall split between matching and growth assets and delegate responsibility for managing their underlying asset allocation (subject to certain restrictions around the type of assets that can be held) to Mercer. This allows the asset allocation of the Scheme to be adjusted quickly, where needed, in response to changes in funding level, to best meet the investment objectives of the Scheme.

Investment risk measurement and management

The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to meet its liabilities ('funding risk'). The Trustees have identified a number of key risks which have the potential to cause a deterioration in the funding level of the Scheme. These are as follows:

- **Asset allocation risk** – the risk of below expected returns from the Scheme's assets. The performance of the Scheme's assets is assessed quarterly via investment monitoring reports produced by Mercer and the strategy is assessed annually as part of Mercer's recalibration exercise. Asset allocation and performance is also assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.
- **Covenant risk** - the possibility of failure of the Employer. The Trustees and their advisers considered this risk when setting the Scheme's investment strategy and consult with the Employer as to the suitability of the proposed strategy.

Risks associated with changes in the Employer covenant are assessed on a regular basis using a number of methods, including monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy) and receiving financial information from the company to assess the strength of the covenant itself. The Trustees also regularly check with the Employer whether events have occurred which have the potential to alter the creditworthiness of the Employer, such as Type A events, as defined in appropriate guidance issued by the Pensions Regulator, and Employer-related Notifiable Events. On receipt of such notification, the Trustees will re-consider the continued appropriateness of the Scheme's existing investment strategy.

- **Mismatching risk** - the risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. The Trustees and their advisers have considered this risk when setting the investment strategy. The types of investments held, and the balance between them, is deemed appropriate given the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme and the Trustees' objectives.
- **Diversification risk** – the failure to spread investment risk. The Trustees and their advisers have considered this risk when setting the investment strategy of the Scheme. The Scheme currently invests in a range of asset classes (equities, liability driven investment funds, emerging market debt and multi asset credit, as well as alternative asset classes).
- **Cash flow risk** - the risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities. The Trustees and their advisers will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- **Manager risk** - the failure by the fund managers to achieve the rate of investment return expected by the Trustees. The Trustees have delegated the selection of the Scheme's underlying investment managers to Mercer. The Trustees have appointed Aon Solutions (UK) Limited to alert them to any matters of material significance that might affect the ability of their discretionary investment manager to achieve their objectives.
- **Operational risk** - the risk of fraud, poor advice or acts of negligence. The Trustees have sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.
- **Currency risk** – the risk that currency movements on overseas assets move against the Scheme, which has a negative impact on asset performance. The Trustees have delegated the decision making around the proportion of overseas assets and currency hedging of these assets to Mercer.

In addition, the Trustees recognise there are other key risks such as macro-economic and longevity risk, which also need to be taken into consideration.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review and in conjunction with the actuarial valuation of the Scheme. Following the completion of each actuarial valuation, the Trustees take advice on the continued appropriateness of the existing investment strategy.

The Trustees monitor the risks arising on a quarterly basis via investment monitoring reports prepared by their discretionary investment manager.

For due diligence purposes, the Trustees aim to meet with the Scheme's discretionary investment manager and adviser on a half yearly basis, or as deemed necessary.

Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. Mercer are responsible for the appointment and monitoring of the custodian of the Scheme's DB assets.

The custodians are independent of the employer.

Expected returns on assets

The investment strategy aims to achieve a return on the Scheme's assets which, when taken in conjunction with contributions, should be sufficient over time to match the growth in the Scheme's pension liabilities.

The Trustees' current expected nominal return assumptions for the main assets classes for the next 10 years (in Sterling terms), as taken from Aon's 'Capital Market Assumptions' dated 30 June 2020, are as follows:

- UK equities: 7.0% pa
- Overseas equities: in the range 5.8% pa (Swiss) to 7.6% pa (Emerging Markets)
- 15-year UK fixed income gilts: 0.3% pa
- 10-year UK investment grade corporate bonds: 0.8% pa
- 15-year UK index-linked gilts: -0.5% pa

The Trustees assume UK inflation based on Aon's 'Capital Market Assumptions' dated 30 June 2020 as Consumer Price Index ("CPI") 2.01% pa / Retail Price Index ("RPI") 2.8% pa.

Realisation of Investments/Liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (through the sale of units in pooled funds).

Effective Decision Making

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. The Trustees also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice taken.

The Trustees believe that, given the size of the Scheme, a separate investment sub-committee would not be appropriate. Therefore, all investment decisions are discussed by the whole Trustee body before decisions are taken. The Trustees seek assistance from their investment adviser where they deem this to be necessary.

Arrangements with Asset Managers

The Trustees have appointed Mercer as its discretionary investment manager, who it considers to be its asset manager. References in this policy to 'underlying asset managers' refers to those asset managers which Mercer, in turn, appoints to manage investments on behalf of the Trustees.

The Trustees recognise that the arrangements with Mercer, and the underlying asset managers, are important to ensure that interests are aligned. The Trustees seek to ensure that Mercer is incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

The Trustees receive quarterly reports and verbal updates from Mercer on various items, including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to their objectives and assess Mercer over 3-year periods.

The Trustees share the policies, as set out in this Statement, with Mercer and ask Mercer to review and confirm whether their approach is in alignment with the Trustees' policies.

This includes monitoring the extent to which the underlying asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

Before the appointment of a new discretionary investment manager, the Trustees will review the governing documentation associated with the investment and will consider the extent to which this aligns with the Trustees' policies. Where necessary, the Trustees will seek to amend that documentation or express their expectations (such as through side letters, in writing, or verbally at Trustee meetings) to improve alignment.

The Trustees believe that having appropriate governing documentation, setting out clear expectations to Mercer and carrying out regular monitoring of the performance of the investment strategy will be sufficient to incentivise Mercer to make decisions that align with the Trustees' policies and which will be based on assessments of medium and long-term financial and non-financial performance.

Where Mercer is considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically engage with Mercer to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with Mercer, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that Mercer invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place.

Costs and Performance

Cost Monitoring

The Trustees are aware of the importance of monitoring the asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that, in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by the investments.

The Trustees receive annual cost transparency reports from Mercer. These reports present information in line with prevailing regulatory requirements for discretionary investment managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Scheme;
- The fees paid to the discretionary investment manager;
- The fees paid to the investment managers appointed by the discretionary investment manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the discretionary investment manager;
 - The Trustees define portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by Mercer;
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees);
- The impact of costs on the investment return achieved by the Scheme.

The Trustees acknowledge that portfolio turnover costs are a necessary cost in order to generate investment returns and that the level of these costs varies across asset classes and managers. Mercer monitor the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustees.

Evaluation of performance and remuneration

The Trustees assess the net performance of Mercer on a rolling three-year basis against the Scheme's specific investment objective. The remuneration paid to Mercer and fees incurred by third parties appointed by Mercer are provided annually by Mercer to the Trustees. This cost information is set out alongside the performance of Mercer to provide context. The Trustees monitor these costs and performance trends over time.

Environmental, Social or Governance ("ESG") Considerations

The Trustees consider investment risk to include ESG factors and climate change. These risks could negatively impact the Scheme's investments. The Trustees consider these risks by taking advice from Aon.

The Trustees have appointed Mercer to manage the Scheme's assets. Mercer invests in a range of underlying investment vehicles.

As part of Mercer's management of the Scheme's assets, the Trustees expect Mercer to:

- Where relevant, assess the integration of ESG factors in the investment process of underlying managers;
- Use its influence to engage with underlying managers to ensure the Scheme's assets are not exposed to undue risk; and
- Report to the Trustees on its ESG activities as required.

Stewardship – Voting and Engagement

The Trustees recognise the importance of their role as a steward of capital, promoting corporate responsibility and encouraging high standards of governance. The Trustees recognise that, ultimately, this will help to protect the financial interests and will create long-term financial value for the beneficiaries of the Scheme.

The Trustees review the stewardship activity of Mercer on an annual basis to ensure the Scheme's stewardship policy is being appropriately implemented in practice. The Trustees receive annual reports on stewardship activity carried out by Mercer and these reports include detailed voting and engagement information from underlying asset managers.

As part of Mercer's management of the Scheme's assets, the Trustees expect the manager to:

- Ensure that (where appropriate) underlying asset managers exercise the Trustees' voting rights in relation to the Scheme's assets; and
- Report to the Trustees on stewardship activity by underlying asset managers as required.

The Trustees will engage with Mercer as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"¹).

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

Additional Voluntary Contributions (“AVCs”) arrangements

Some members obtain further benefits by paying Additional Voluntary Contributions (AVCs) to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

Members are recommended to seek independent financial advice when considering their AVC arrangements.

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Name (Print)

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Signature

.....
Date

For and on behalf of the Trustees of the Nike (UK) Limited Retirement Benefits Scheme

Nike (UK) Limited Retirement Benefits Scheme (“the Scheme”)

Appendix I to the Statement of Investment Principles

This Appendix sets out the Trustees’ current investment strategy and is supplementary to the Trustees’ Statement of Investment Principles.

The Trustees’ investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the Statement. The details are laid out below:

1. Asset allocation strategy

The allocation of the Scheme’s assets between growth elements of the portfolio (consisting of investment in return seeking assets including equities and alternative asset classes) and matching elements of the portfolio (consisting of investments in liability driven investment funds) depends on the funding position of the Scheme. At the date of this statement, the Trustees had agreed a strategic allocation of 57.6% to the growth elements of the MDDS and 42.4% to the matching elements of the MDDS.

A series of funding level triggers has been established for the Scheme on the basis that a set proportion of total assets are switched at each trigger point. As successive funding level triggers are met, the asset mix will change so as reduce growth asset risk and match a greater proportion of the interest rate and inflation risks within the Scheme’s liabilities.

The matching elements consist of a range of underlying LDI funds.

The growth element’s strategic target asset allocation is as follows:

Asset Class	Strategic Growth Allocations ^(a)
Factor Equity	2.5%
Synthetic Equity-Linked Bonds	10.0
Global Low Volatility Equity	6.5%
Global Small Cap Equity	5.0%
Sustainable Global Equity	6.5%
Emerging Markets Equity	8.0%
Global Infrastructure Equity	3.0%
Passive Global REITs	2.0%
Emerging Markets Debt	7.0%
Multi-Asset Credit	8.5%
Absolute Return Fixed Income	6.0%
Hedge Funds (MLAS)	12.0%
Hedge Funds (MUAS)	5.0%
HLV Property	5.0%
Cash ^(b)	13.0
Total	100.0%

Note: figures may not add due to rounding.

^(a) Based on the strategic asset allocation as at 31 July 2020.

^(b) Cash will be re-deployed later in this year.

The Trustees £4.5m commitment to Private Markets (PIP V) will begin to feature the Scheme's assets allocation as the individual sleeves become a meaningful allocation when capital is called and invested over time.

Mercer has the flexibility to amend the strategic asset allocation over time, including the ability to invest in private markets through the Private Investment Partners funds (subject certain constraints set out in the Investment Management Agreement between Mercer and the Trustees).

2. Investment Managers

The Trustees have appointed Mercer Limited ("Mercer") to act as their discretionary investment manager. Assets are invested in pooled funds with Mercer who invest in underlying investment managers. Mercer has been appointed to update and monitor the Scheme's funding level against the agreed trigger levels and implement any switches between asset classes as required when triggers are met.

2.1 Cash balances

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustees' intention to hold a significant cash balance and this is carefully monitored by the Scheme's administrator and reported regularly to the Trustees.

2.2 Derivatives

The Trustees do not directly hold any investments in derivatives.

However, Mercer have the ability to use derivatives in the underlying pooled funds which comprise the MDDS, but this is only in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The Scheme's liability driven investment funds will make extensive use of derivatives in their pooled funds in order to provide leveraged exposure to interest rates and inflation. However, and as noted above, these are only used in so far as they contribute to the reduction of investment risks and are managed so as to avoid excessive risk exposure to a single counterparty or other derivative operations.

3. Fee structure for advisers and investment managers

3.1 Advisers

The Trustees have agreed a fixed fee for regular work which is carried out by Aon on behalf of the Nike (UK) Limited Retirement Benefits Scheme. This fee will be re-negotiated on a triennial basis. Any work outside of the fixed fee listed will be pre-agreed with the Trustees on either a fixed fee or capped budget approach as set out in the signed Agreement for the Provision of Services to the Nike (UK) Limited Retirement Benefits Scheme.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

3.2 Investment managers

The discretionary investment manager and underlying investment managers are remunerated as a set percentage of the assets under management. This is in keeping with market practice and recognises that investment decisions have been delegated to Mercer by the Trustees of the Nike (UK) Limited Retirement Benefits Scheme.