

THE UNIVERSITY OF WARWICK PENSION SCHEME

(Scheme Registration Number 10000605)

**ANNUAL REPORT
FOR THE YEAR ENDED
31 MARCH 2019**

Table of contents

The Trustee's Report	3
The Investment Report	13
Independent Auditor's Report to the Trustee of The University of Warwick Pension Scheme	18
Summary of contributions payable in the year	20
Independent Auditor's Statement about Contributions to the Trustee of The University of Warwick Pension Scheme	21
The Financial Statements	22
Notes to the Financial Statements	24
Certificate of Adequacy of Contributions	37
Schedule of Contributions	38
Chair's Statement	41
Appendix 1 - DC Section Statement of Investment Principles	55
Appendix 2 - DB Section Statement of Investment Principles	60

The Trustee's Report

Introduction

This report relates to the operation of The University of Warwick Pension Scheme ("the Scheme") during the year ended 31 March 2019. The Investment Report on pages 13 to 17 forms part of this report.

Until 31 March 2010 the Scheme was a contracted-out salary related pension arrangement but from 1 April 2010 the Scheme contracted back in to the State Second Pension. The Defined Benefit (DB) Section closed to new entrants from 31 March 2010 although eligible non-Members who were in service on 31 March 2010 were allowed to join the Scheme up to 30 June 2010.

From 1 April 2010 the Scheme introduced a contracted in Defined Contribution (DC) Section for new employees to the University, which provides its Members with benefits based on their fund value.

From 1 March 2013 this original DC Section of the Scheme was renamed the Heritage Defined Contribution Section and the contribution levels amended to ensure that it complies as a Qualifying Scheme for automatic enrolment purposes under the Pensions Act 2008 legislation. A new DC Section, the Enterprise Defined Contribution Section, was established from 1 March 2013 in readiness for auto enrolment of Uni-temps workers effective from 1 May 2017.

Members are able to make additional voluntary contributions (AVCs) to secure additional benefits. The Scheme also covers members (except those in the Enterprise Section) for death benefits.

Full details of the Scheme's benefits can be found in the member's explanatory booklet (see "Contact for further information" on page 8). A copy of the Heritage Defined Contribution section booklet can be accessed via the University's HR Intranet page or by e-mailing hr.pensions@warwick.ac.uk

Management of the Scheme

The Scheme has a Corporate Trustee, UPS Pension Trustee Limited. The names of the directors who served during the year and those serving at the date of approval of this report are as follows:

Name	Nominated / appointed by	Date of appointment	Date of resignation
Professor Emeritus Stuart Beaumont Palmer	Employer	24/05/2010	
Professor Saul Domenico Jacka	Employer	07/05/2015	
Mr James McMeehan Roberts	Employer	23/10/2014	
Mr Quentin Compton-Bishop	Members	19/10/2016	
Ms Lauren Smalley	Members	19/01/2017	31/01/2019
Mr James Hunt	Employer	26/06/2017	
Ms Jennifer Elizabeth Davies	Members	13/03/2019	

Directors are appointed and removed from office in accordance with the Scheme Rules and the Trustee Company's Articles of Association. At least one third of the Trustee Directors appointed by the Principal Employer must be nominated by the Members.

The Trustee held a number of full meetings during the year under review. Each Trustee Director is entitled to receive at least ten days' notice of meetings, although in practice dates are normally fixed well in advance. The Scheme Rules provide that decisions of the Trustee may be made by a majority of the Trustee Directors present at any meeting and the Chairman has a casting vote. The Trustee uses sub-committees as appropriate, for example the investment sub-committee to consider more detailed technical work. The sub-committees in each case report their recommendations to the Trustee.

The Trustee has delegated the day-to-day management and operation of the Scheme's affairs to professional organisations

The Trustee's Report (Cont)

Scheme advisers

The Trustee retains a number of professional advisers in connection with the operation of the Scheme. The advisers currently appointed are as follows:

Scheme Actuary	Lloyd Cleaver FIA
Advising Actuaries	Willis Towers Watson
Administrators	Barnett Waddingham LLP (DB Section) Zurich Assurance Limited (DC Section)
Auditor	KPMG LLP
Bankers	National Westminster Bank plc
Custodian	State Street Bank and Trust Company
Investment Advisors	Willis Towers Watson
Investment Fund Managers	AQR Capital Management LLC BlackRock Advisers (UK) Fulcrum Asset Management Insight Investment Legal and General Investment Management Magnetar Capital LLC JPMorgan Asset Management (UK) Limited Nephilia Capital Putnam Investments Robeco Luxembourg S.A. (to February 2019) Sankaty Advisers LLC State Street Global Advisors TCW Securitised Opportunities (Cayman) L.P. Wadhvani Asset Management Wellington Management Zurich Assurance Limited (DC Sections) Prudential (AVCs)
Legal Advisers	Sackers
Secretary to the Trustee	PTL (to 1 July 2018) Joseph Devlin (from 1 July 2018)
Pension Manager	Joseph Devlin

The Trustee's Report (Cont)

Changes in and other matters relating to Scheme advisers

Barnett Waddingham were appointed as DC advisers with effect from March 2019. There have been no other matters relating to Scheme advisers during the Scheme year under review.

Changes to Scheme Rules

There have been no changes to the Scheme Rules during the year under review.

The Principal Employer

The name and address of the Principal Employer is as follows:

The University of Warwick, Coventry, CV4 7AL

The following Employers, all of which are associated in business with the Principal Employer, have also participated in the Scheme during the year under review:

Employer Name

The University of Warwick Science Park Limited

Warwick University Enterprises Limited (Enterprise DC Section only)

Financial development of the Scheme

During the year the value of the net assets increased by £14,400,678 to £234,924,249 as at 31 March 2019. The increase comprised net withdrawals from dealings with members of £194,205 together with a net increase from the return on investments of £14,594,883.

Scheme Audit

The financial statements on pages 22 to 36 have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

Tax status of Scheme

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and, to the Trustee's knowledge, there is no reason why the Scheme's registered status should be prejudiced or withdrawn.

The Trustee's Report (Cont)

Scheme membership

Defined benefit section	Number as at start of year	Changes in year	Number as at end of year
Active members	522		
adjustments		10	
left (preserved pensioners)		(23)	
retired		(24)	
		<hr/>	485
Preserved pensioners	865		
adjustments		58	
new		23	
transferred out		(4)	
retired		(28)	
commuted pension		(2)	
		<hr/>	912
Pensioners and dependants	989		
adjustments		(2)	
new		52	
new dependants		5	
commuted pension		-	
died		(29)	
		<hr/>	1,015
Grand total members	<hr/>		<hr/>
	2,376		2,412

Included within the pensioners and dependants are 129 (2018: 130) pensions paid from annuities held in the name of the Trustee.

Adjustments relate to late notifications and a data cleanse on the active and preserved membership.

Defined contribution section	Number as at start of year	Number as at end of year
Active members	1,735	1,966
Preserved pensioners	697	1,006
Grand total members	<hr/>	<hr/>
	2,432	2,972

The member numbers shown above reflect the number of member records held by the Scheme.

The Trustee's Report (Cont)

Pension increases

Pensions in payment were increased during the period as follows:

- That part of the pension appropriate to service before 6 April 1997 was increased by 3%.
- That part of the pension appropriate to service between 6 April 1997 and 5 April 1999 was increased by the percentage increase in the Retail Prices Index subject to a maximum of 5% and a minimum of 3%, therefore 4%.
- That part of the pension appropriate to service between 6 April 1999 and 5 April 2006 was increased by the percentage increase in the Retail Prices Index subject to a maximum of 5%, therefore 4%.
- That part of the pension appropriate to service between 6 April 2006 and 31 March 2010 was increased by the percentage increase in the Retail Prices Index subject to a maximum of 3%, therefore 3%.
- That part of the pension appropriate to service after 31 March 2010 was increased by the percentage increase in the Retail Prices Index subject to a maximum of 2.5%, therefore 2.5%.

These increases are in accordance with the Scheme Rules. No discretionary increases were awarded.

GMP equalisation

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes.

The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps. It is not possible to estimate the value of any such adjustments at this time.

Transfer values

All cash equivalents (transfer values) paid during the year were calculated and verified in the manner required by the Pensions Act 1993 and subsequent amendments. No discretionary benefits are included in the calculation of transfer values.

A cash equivalent is the amount which a Scheme member is entitled under social security legislation to have applied as a transfer payment to another permitted pension arrangement or a buy-out policy.

Data Protection Act 2018 and General Data Protection Regulations

On 25 May 2018 the Data Protection Act 1998 was replaced by the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. The GDPR and the 2018 Act introduced some significant changes, including new contractual obligations, enhanced reporting obligations and tougher enforcement and / or sanctions for non-compliance.

Under the new regulations, pension scheme trustees continue to be classed as data controllers, with legal responsibility for compliance falling to them. Scheme Actuaries are also classed as data controllers (jointly with the trustees) in accordance with guidance issued by the Actuarial Profession. Barnett Waddingham LLP act as a data processor as the administrators of the Scheme. The Trustee has worked with its advisers to receive relevant training, and continues to do so to ensure continued compliance with data protection legislation.

The Trustee's Report (Cont)

Codes of Practice

The Trustee is aware of and adheres to the Codes of Practice issued by The Pensions Regulator ("TPR"). The objectives of these codes are to protect members' benefits, reduce the risk of calls on the Pension Protection Fund ("PPF") and to promote good administration.

The Pensions Regulator: Record Keeping

TPR issues guidance on all aspects of pension scheme data record keeping to all those responsible for the data (the trustees) and those who administer pension schemes. The guidance covers both common data and also scheme-specific data (conditional). The guidance sets out good practice in helping trustees to assess risks associated with record keeping. Improved data means that trustees and employers will be able to make a more precise assessment of their financial liabilities. Schemes are expected to keep their data under regular review and set targets for the improvement in the standard of data recorded. More information can be found at:

<http://www.thepensionsregulator.gov.uk/guidance/guidance-record-keeping.aspx>

Contact for further information

If, as a defined benefit Scheme member, you wish to obtain further information about the Scheme, including copies of the Scheme documentation, your own pension position or who to contact in the event of a problem or complaint, please write to or telephone:

The University of Warwick Team, Barnett Waddingham LLP, St James's House, St James's Square, Cheltenham, GL50 3PR.

Telephone: 0333 1111 222

Alternatively you may contact the Scheme administrators online at:

<https://logon.bwebstream.com/shared/contact>

If you are a member of the defined contribution section (either Heritage or Enterprise sections) and have a query you should contact the Human Resources (HR) Pensions Administration Team at:

Pensions Administration
HR Department
University House
University of Warwick
Coventry
CV4 8UW

Alternatively you may contact the team online at: hr.pensions@warwick.ac.uk

The Trustee's Report (Cont)

Statement of Trustee's Responsibilities

Statement of Trustee's responsibilities for the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, is the responsibility of the Trustee. Pension scheme regulations requires the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

(i) show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and

(ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes*.

The Trustee has supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee's Report (Cont)

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to covers its technical provisions. The technical provisions represent the present value of the benefit members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the University and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Defined Benefit section of the Scheme was carried out as at 31 March 2016. An actuarial report was prepared as at 31 March 2018. The table below shows the results of these valuations.

Valuation date	31 March 2018	31 March 2016
	£m	£m
Value of technical provisions	234.0	202.9
Value of assets available to meet technical provisions	210.6	177.1
Assets as a percentage of technical provisions	90%	87%

The values above relate to the whole Scheme, including the assets and liabilities in relation to AVC benefits. The Trustee holds annuity policies that secure the pensions payable to certain specified beneficiaries. However, as permitted under current regulations and accounting practice, the Trustee has decided that these policies need not be valued in the Net Asset Statement on the grounds of materiality. The figures above include a prudent assessment of these annuity policies, but it is worth noting that the assets and liabilities covered by these policies match each other exactly.

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

The principal assumptions that were used for the actuarial valuation as at 31 March 2016 and for the 31 March 2018 funding update are set out below. The assumptions as at 31 March 2016 were derived having regard to the agreed Statement of Funding Principles dated 31 March 2017 and market conditions at 31 March 2016. The assumptions as at 31 March 2018 were derived having regard to the agreed Statement of Funding Principles dated 31 March 2017 with revised longevity expectations and market conditions at 31 March 2018.

All assumptions have been derived with reference to the full gilt yield curve and implied inflation curve, from the Willis Towers Watson Investment Model. Detailed in the table below are the single equivalent financial assumptions. These represent the equivalent single assumptions which taken in isolation would produce the same liability figure as that derived from using the full curves for each respective financial assumption.

The Trustee's Report (Cont)

Report on Actuarial Liabilities (Cont)

Assumed future rate of:	31 March 2018	31 March 2016
	% pa	% pa
Discount rates:		
- Short term discount rate	3.00	3.65
- Long term discount rate	1.60	2.15
- Initial time horizon	9 years	11 years
Salary increases:	2.25	1.90
Deferred increases on pension in excess of GMP * :		
- Pre 6.4.09	2.50	1.90
- Post 5.4.09	2.50	1.90
Pension increases in payment:		
- Pre 6.4.97 (inc. GMP) (fixed 3%)	3.00	3.00
- Post 5.4.97, pre 6.4.99 (RPI, min 3%, max 5%)	3.80	3.75
- Post 5.4.99, pre 6.4.06 (RPI, max 5%)	3.05	2.95
- Post 5.4.06, pre 1.4.10 (RPI, max 3%)	2.25	2.20
- Post 31.3.10 (RPI, max 2.5%)	1.95	1.95
Mortality in retirement		
- Base mortality tables		
Male Pensioners	SAPS (S2) normal tables with a multiplier of 120%	SAPS (S2) normal tables with a multiplier of 120%
Female Pensioners	SAPS (S2) normal tables with a multiplier of 100%	SAPS (S2) normal tables with a multiplier of 100%
- Future improvements in longevity	CMI 2017 core projections with a 1.5% pa long-term trend	CMI 2015 core projections with a 1.5% pa long-term trend

* GMP receives statutory fixed rate revaluation in deferment

Towers Watson Limited, a Willis Towers Watson Company
May 2019

The Trustee's Report (Cont)

Approval of Trustee's Report (including Investment Report)

Further disclosures required by legislation are provided in the Investment Report.

This report and the accompanying Investment Report were approved by the Trustee on

Date: 24/9/19

Signed on behalf of the Trustee:

Director Director

The Investment Report

DB Section

Introduction

The Trustee maintains a Statement of Investment Principles ("SIP"), as required by Section 35 of the Pensions Act 1995, and a copy of the statement is available on request. This outlines the Scheme's investment governance structure and asset allocation strategy.

When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 requires that the managers' duties also include:

- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Voting and corporate governance in relation to the Scheme's assets.

Departures from investment principles

There were no significant departures from the stated principles during the year under review. Small deviations from the benchmark allocation are to be expected as a result of fluctuations in asset prices.

Governance structure

The Trustee has 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 Trustee delegates some of these responsibilities in accordance with the Scheme's Trust Deed and Rules.

In particular, the Trustee delegates a number of tasks to an Investment Sub Committee ("ISC") as well as a Delegated Chief Investment Officer ("DCIO"), the latter function being carried out by Willis Towers Watson Limited.

The Trustee's primary investment role and responsibility is to set the overall strategic investment objectives for the Scheme, including a risk budget and return target (taking advice from the ISC and DCIO), and ensuring that these objectives remain appropriate over time.

The DCIO's roles and responsibilities are set out within a Fiduciary Management Agreement ("FMA"). The DCIO is responsible for managing the Scheme's investments within the constraints of specific Investment Guidelines, which are designed to be consistent with the long-term strategic goals and parameters agreed by the Trustee. Specific responsibilities include: determining asset allocation and liability hedging design; selecting and de-selecting underlying investment managers; implementing all asset transitions; and providing regular monitoring reports.

The ISC's roles and responsibilities include monitoring the activity and performance of the DCIO for the services provided as set out in the DCIO's FMA, and reporting to the Trustee.

Further details regarding the division of responsibilities are set out in the Scheme's SIP.

The Investment Report (Cont)

Asset allocation strategy

The asset allocation at the beginning and end of this accounting year was as follows:

Asset Class	Asset allocation (%)	Asset allocation (%)
	31.03.18	31.03.19
Equities		
Global equities (inc. Emerging)	17.5%	9.8%
Alternative betas		
Reinsurance	3.6%	3.7%
Momentum	3.8%	3.4%
Volatility Premium	1.8%	1.8%
Merger Arbitrage	3.8%	5.1%
Multi Asset Value	2.7%	2.4%
Mortgage Prepayments	0.6%	1.5%
Alternative credit		
Global high yield	3.3%	1.3%
Loans	2.7%	2.6%
Securitised credit	4.5%	4.5%
Emerging Market Debt	3.2%	3.0%
Private markets		
Secure Income Assets	-	7.2%
REITs	4.6%	4.8%
Infrastructure	4.4%	4.7%
Credit		
Global corporate credit	2.9%	-
Global sovereign credit	5.0%	3.7%
Matching assets		
Matching assets (inc. cash)	35.6%	40.5%
Total	100%	100%
Liability hedge ratio*	c.63%	c.94%

*The liability hedge ratio is an estimate of 'the sensitivity of the assets to changes in long-term interest rate and inflation expectations' relative to 'the sensitivity required to insulate the funding level against changes in long-term interest rates and inflation'.

The change in asset allocation over the year reflects both relative market movements as well as some portfolio rebalancing.

Review of investment performance

Summary

In the UK, the Bank of England (BoE) raised policy rates in August 2018, moving the base rate to 0.75%. The Monetary Policy Committee stated that, were the economy to develop in line with its projections, an ongoing tightening of monetary policy would be appropriate and any future increases in the base rate are likely to be at a gradual pace and to a limited extent. Meanwhile, the future outcome for the UK's withdrawal from the EU remains highly uncertain.

In the US, The Federal Reserve (the Fed) raised rates three times in the past 12 months. On 13 June 2018, there was a raise of its rate by 25bps to 1.75-2.00%. Also in June, President Trump implemented \$34 billion in tariffs on Chinese goods and the move prompted China to retaliate in equal measure. These tariffs will not have a significant impact on either country's growth but the risk of escalation creates significant uncertainty. At the end of September 2018, the Fed raised the target range for its benchmark policy rate by 0.25% to 2.00-2.25% and then again in December by 0.25% to 2.25-2.50%. The Federal Open Market Committee commented that some further gradual increases in the target range for the

The Investment Report (Cont)

federal funds rate will be consistent with sustained expansion of economic activity, strong labour market conditions, and inflation near the Committee's symmetric 2.00% objective over the medium term.

Over the 12 months to 31 March 2019 sterling depreciated against the US dollar and Japanese yen by 7.1% and 3.3% respectively. Over the same period, it appreciated against the euro by 1.7%.

Equity markets

Equity market returns were broadly positive over the 12 month period, with the FTSE World Index returning 11.1% in sterling terms. North American equities were the best performing developed region, returning 17.5% in sterling terms. Emerging market equities lagged developed, with the FTSE Emerging Index returning 1.9% in sterling terms.

Bond markets

UK government bond yields (which move inversely to bond prices) fell over the 12 month period. Long maturity UK gilts returned 4.7% over the period (as measured by FTSE-A Gilts Over 15 Years Index). Inflation-linked gilt yields also decreased with the FTSE-A Index-Linked Gilts Over 15 Years Index returning 5.7%. Local currency emerging market debt had negative absolute performance returning -0.5% over the year, while hard currency emerging market debt returned a positive performance of 2.2% (as measured by JPMorgan).

Alternative investment markets

Crude oil returned -7.4% (West Texas Intermediate Crude Oil) in dollar terms over the 12 months to 31 March 2019. Towards the end of 2018 oil prices fell considerably, driven by fears of global oversupply and reduced expectations of global economic growth. The decision by Saudi Arabia, Russia, and other oil producing countries to offset possible losses of Iranian oil, along with President Trump granting waivers to eight countries allowing them to continue to purchase Iranian oil, was also a contributor to falling oil prices. In 2019, oil prices rose considerably as demand proved more robust than expected, particularly in emerging markets. The price of oil was also impacted by OPEC supply cuts and US sanctions on Iran and Venezuela leaving the market with less of a buffer to absorb any supply disruptions.

Commercial UK property (as measured by the IPD Monthly Index) returned 5.6% over the 12 months to 31 March 2019.

Performance

Total DB section investment returns for the Scheme year are summarised below:

Period to 31 March 2019	Return (%)
Quarter	7.1
Year	6.9
3 years (annualised)	9.3

The Investment Report (Cont)

The following table provides a breakdown of returns since 1 Jan 2013, when the current investment structure was put in place:

Asset class / Portfolio	Since inception return (% p.a.)
<i>Global equities:</i>	
Global equities	8.5
<i>Alternative betas:</i>	
Reinsurance	6.2
Momentum ¹	-5.9
Volatility premium ²	6.2
Merger arbitrage ³	9.9
Multi Asset Value ⁵	-9.1
Mortgage prepayments ⁶	7.2
<i>Alternative credit:</i>	
Global high yield ⁹	12.1
Loans	6.3
Securitised credit ¹⁰	7.9
Emerging Market Debt ⁷	-0.7
<i>Private markets:</i>	
Infrastructure	12.7
REITs ⁴	9.6
Secure Income Assets ⁸	N/A
<i>Credit:</i>	
Global sovereign credit ¹¹	4.5
<i>Matching assets:</i>	
Matching assets (including cash)	20.0
Total Scheme	10.0

¹ Momentum inception date – 01/05/2015

² Volatility Premium inception date – 01/10/2015

³ Merger arbitrage inception date – 01/04/2016

⁴ REITs inception date – 10/11/2016

⁵ Multi Asset Value inception date – 17/07/2017

⁶ Mortgage prepayments inception date – 08/01/2018

⁷ Emerging Market Debt inception date – 30/11/2017

⁸ Secure Income Assets inception date – 01/12/2018 – performance as reported by the Scheme's performance measurer (State Street) is lagged as at 31 December 2018.

⁹ Global High Yield – 01/12/2015

¹⁰ Securitised Credit – 01/06/2016

¹¹ Global sovereign credit – 01/04/2016

The Investment Report (Cont)

DC Section

Performance

DC section investment returns for the last 12 months are summarised below:

Fund	Return (%)	Benchmark (%)	Relative (%)
UPS Balanced Growth	9.70	9.40	0.30
UPS Equity Growth	11.40	11.30	0.10
UPS Money Market	0.70	0.50	0.20
UPS Pre-Retirement	5.10	5.00	0.10
Zurich Money Market CS1	0.51	0.51	0.00
Zurich Passive Multi-Asset II CS1/CS3	7.19	7.27	(0.08)
Zurich Passive Multi-Asset III CS1	7.69	7.72	0.03
Zurich Passive Multi-Asset IV CS1	9.14	9.07	0.07
Zurich Passive Multi-Asset V CS1	11.31	11.07	0.24
Zurich Passive Annuity Purchase CS1	4.33	4.25	0.08

Independent Auditor's Report to the Trustee of The University of Warwick Pension Scheme

Opinion

We have audited the financial statements of The University of Warwick Pension Scheme ("the Scheme") for the year ended 31 March 2019 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2019 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under the UK ethical requirements including the FRC Ethical Standard, and are independent of the Scheme in accordance with UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Trustee and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Scheme's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Scheme's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a scheme and this is particularly the case in relation to Brexit.

Going concern

The Trustee has prepared the financial statements on the going concern basis as they do not intend to wind up the Scheme, and as they have concluded that the Scheme's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the scheme, including the impact of Brexit, and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

Independent Auditor's Report (Cont)

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the Report on Actuarial Liabilities and the summary of contributions), and the actuarial certification of the Schedule of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 9, the Scheme's Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

Auditors' responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at: www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.



Iryndeeep Kaur-Delay
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill, Snowhill Queensway
Birmingham, B4 6GH

Date: 24 SEPTEMBER 2019

Summary of contributions payable in the year

During the year, the contributions payable to the Scheme under the Schedule of Contributions were as follows:

Defined Benefit Section	£
Employer normal contributions	2,032,686
Employer deficit contributions	1,257,314
Members' normal contributions	548,029
Defined Contribution Section	
Employer normal contributions	1,691,958
Members' normal contributions	897,681
Employer additional reserve fund	22,704
Total contributions payable under the Schedule of Contributions and reported on by the Scheme auditor	6,450,372

During the year, the contributions not payable per the Schedule of Contributions were as follows:

Defined Benefit Section	
Members' Additional Voluntary Contributions	65,415
Defined Contribution Section	
Members' Additional Voluntary Contributions	27,691
Total contributions reported in the financial statements	6,543,478

Signed on behalf of the Trustee:



 Director Director

Date: 24/9/19

Independent Auditor's Statement about Contributions to the Trustee of The University of Warwick Pension Scheme

We have examined the summary of contributions payable under the Schedule of Contributions to the University of Warwick Pension Scheme in respect of the Scheme year ended 31 March 2019 which is set out on page 20.

In our opinion contributions for the Scheme year ended 31 March 2019 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 1 February 2018.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of the Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 9, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, as a body, for our work, for this statement, or for the opinions we have formed.



Iryndeeep Kaur-Delay
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

Date: 24 SEPTEMBER 2019

The Financial Statements

Fund Account

for the year ended 31 March 2019

	Note	31 March 2019		31 March 2018	
		Defined Benefit Section £	Defined Contribution Section £	Total £	Total £
Contributions and benefits					
Employer contributions		3,290,000	1,714,662	5,004,662	5,012,914
Employee contributions		613,444	925,372	1,538,816	1,278,660
Total contributions	3	3,903,444	2,640,034	6,543,478	6,291,574
Transfers in	4	-	61,173	61,173	32,452
Other income	5	25,052	104,899	129,951	195,334
		3,928,496	2,806,106	6,734,602	6,519,360
Benefits paid or payable	6	(5,458,048)	(148,167)	(5,606,215)	(5,379,587)
Payments to and on account of leavers	7	(330,257)	(199,058)	(529,315)	(713,312)
Administrative expenses	8	(608,699)	(53,174)	(661,873)	(713,969)
Other payments	9	(39,165)	(92,239)	(131,404)	(109,791)
		(6,436,169)	(492,638)	(6,928,807)	(6,916,659)
Net (withdrawals) / additions from dealings with members		(2,507,673)	2,313,468	(194,205)	(397,299)
Returns on investments					
Investment income	10	10,702,822	64	10,702,886	268,558
Change in market value of investments	11	3,568,837	867,107	4,435,944	2,896,309
Investment management expenses	12	(501,605)	(42,342)	(543,947)	(586,506)
Net returns on investments		13,770,054	824,829	14,594,883	2,578,361
Net increase in the fund during the year		11,262,381	3,138,297	14,400,678	2,181,062
Net assets of the Scheme					
At 1 April 2018		209,430,755	11,092,816	220,523,571	218,342,509
At 31 March 2019		220,693,136	14,231,113	234,924,249	220,523,571

The notes on pages 24 to 36 form part of these financial statements.

Statement of Net Assets
available for benefits as at 31 March 2019

	Note	31 March 2019			31 March 2018
		Defined Benefit Section £	Defined Contribution Section £	Total £	Total £
Investment assets:					
Pooled investment vehicles	14	218,785,021	14,100,520	232,885,541	216,375,081
Cash deposits	11	-	-	-	1,500,000
AVC investments	15	946,505	-	946,505	955,380
Total net investments		219,731,526	14,100,520	233,832,046	218,830,461
Current assets	19	1,334,490	299,984	1,634,474	2,096,400
Current liabilities	20	(372,880)	(169,391)	(542,271)	(403,290)
Net assets of the Scheme at 31 March available for benefits		220,693,136	14,231,113	234,924,249	220,523,571

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the Defined Benefit Section is dealt with in the Report on Actuarial Liabilities on pages 10 to 11 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 24 to 36 form part of these financial statements.

These financial statements were approved by the Trustee on

Date: 24/9/19

Signed on behalf of the Trustee:


 Director Director

Notes to the Financial Statements

Details of general information for the Scheme are available in the Trustee's Report.

1. Basis of preparation

The individual financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (2014).

2. Accounting policies

The principal accounting policies of the Scheme which are applied consistently are as follows:

Currency

- The Scheme's functional and presentational currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year-end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

Contributions

- Employer deficit funding contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier with the agreement of the Employer and Trustees.
- Employee contributions, including AVCs, are accounted for by the Trustee when they are deducted from pay by the Employer.
- Employer normal contributions are accounted for in accordance with the Schedule of Contributions in force during the year.
- Employer additional contributions are accounted for in accordance with the agreement under which they are payable or, in the absence of an agreement, on a receipts basis.

Payments to members

- Pensions in payment are accounted for in the period to which they relate.
- Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving.
- Individual transfers in or out of the Scheme are accounted for when member liability is accepted or discharged which is normally when the transfer amount is paid or received.

Expenses

- Expenses are accounted for on an accruals basis.
- Investment management expenses are also accounted for on an accruals basis.

Investment income

- Income from pooled investment vehicles is accounted for when declared by the fund manager.
- Income from cash and short term deposits is accounted for on an accruals basis.
- Receipts from annuity policies are accounted for as investment income on an accruals basis.
- Investment income arising from the underlying investments of the pooled investment vehicles is reinvested within the pooled investment vehicles and reflected in the unit price. Thus, it is reported within "Change in market value".

Investments are included at fair value as stated below:

- The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.
- Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV) determined in accordance with fair value principles, provided by the pooled investment manager.
- Annuities purchased by the Trustee which fully provide the benefits for certain members are not included as assets of the Scheme as they are deemed not material. The cost of purchasing these annuities is reported under benefits payable within the Fund Account.
- With profit insurance policies are reported at the policy value provided by the insurance company based on the cumulative reversionary bonuses declared and the current terminal bonus.

Notes to the Financial Statements (Cont)

3. Contributions

	Defined Benefit Section	2019 Defined Contribution Section	Total
	£	£	£
Employer contributions			
Normal	2,032,686	1,691,958	3,724,644
Deficit	1,257,314	-	1,257,314
Additional	-	22,704	22,704
	<u>3,290,000</u>	<u>1,714,662</u>	<u>5,004,662</u>
Employee contributions			
Normal	548,029	897,681	1,445,710
Additional voluntary contributions	65,415	27,691	93,106
	<u>613,444</u>	<u>925,372</u>	<u>1,538,816</u>
	<u>3,903,444</u>	<u>2,640,034</u>	<u>6,543,478</u>
		2018 Restated	
Employer contributions			
Normal	2,169,018	1,247,000	3,416,018
Deficit	1,120,982	-	1,120,982
Additional	-	475,914	475,914
	<u>3,290,000</u>	<u>1,722,914</u>	<u>5,012,914</u>
Employee contributions			
Normal	582,178	606,426	1,188,604
Additional voluntary contributions	63,988	26,068	90,056
	<u>646,166</u>	<u>632,494</u>	<u>1,278,660</u>
	<u>3,936,166</u>	<u>2,355,408</u>	<u>6,291,574</u>

Salary sacrifice contributions have been included within employee normal contributions.

Total employer contributions of £3.29m per annum are being paid to the DB section of the Scheme until 31 March 2027 in accordance with a Recovery Plan to improve the Scheme's funding position. These contributions comprise normal contributions for active DB members, the provision of death in service benefits, the expenses of administering the Scheme (including PPF levies) and deficit shortfall contributions.

Notes to the Financial Statements (Cont)**4. Transfers in**

	Defined Benefit Section	2019 Defined Contribution Section	Total
	£	£	£
Individual transfers in from other Schemes	-	61,173	61,173
2018			
Individual transfers in from other Schemes	-	32,452	32,452

5. Other income

	Defined Benefit Section	2019 Defined Contribution Section	Total
	£	£	£
Claims on term insurance policies	25,052	104,899	129,951
2018			
Claims on term insurance policies	93,261	102,073	195,334

6. Benefits paid or payable

	Defined Benefit Section	2019 Defined Contribution Section	Total
	£	£	£
Pensions	4,222,548	-	4,222,548
Commutations and lump sum retirement benefits	1,168,143	37,372	1,205,515
Purchase of annuities on retirement	-	-	-
Lump sum death benefits	64,528	110,795	175,323
	5,455,219	148,167	5,603,386
2018			
Pensions	3,977,665	-	3,977,665
Commutations and lump sum retirement benefits	1,041,683	61,394	1,103,077
Purchase of annuities on retirement	11,790	-	11,790
Lump sum death benefits	151,140	135,915	287,055
	5,182,278	197,309	5,379,587

Notes to the Financial Statements (Cont)

7. Payments to and on account of leavers

	Defined Benefit Section	2019 Defined Contribution Section	Total
	£	£	£
Refunds to members leaving service	(14)	1,671	1,657
Individual transfers to other Schemes	330,271	197,387	527,658
	330,257	199,058	529,315
2018			
Refunds to members leaving service	-	317	317
Individual transfers to other Schemes	512,053	200,942	712,995
	512,053	201,259	713,312

8. Administrative expenses

	Defined Benefit Section	2019 Defined Contribution Section	Total
	£	£	£
Administration and processing	259,135	39,345	298,480
Actuarial fees	177,463	-	177,463
Audit fee	9,960	9,960	19,920
Legal and other professional fees	53,122	3,600	56,722
Secretarial fees	8,100	-	8,100
PPF Levy	97,325	-	97,325
Miscellaneous	3,594	269	3,863
	608,699	53,174	661,873
2018			
Administration and processing	258,002	49,090	307,092
Actuarial fees	173,820	-	173,820
Audit fee	11,060	11,060	22,120
Legal and other professional fees	57,801	3,513	61,314
Secretarial fees	61,121	-	61,121
PPF Levy	83,505	-	83,505
Miscellaneous	3,210	1,787	4,997
	648,519	65,450	713,969

The Scheme bears all other costs of administration. The administration fees payable to the University's HR Department were £69,690 (2018: £77,543).

Notes to the Financial Statements (Cont)

9. Other payments

	Defined Benefit Section	2019 Defined Contribution Section	Total
	£	£	£
Premiums on term insurance policies	39,165	92,239	131,404
2018			
Premiums on term insurance policies	38,903	70,888	109,791

A policy is held with Aviva Life & Pensions UK Ltd to cover the Scheme against lump sum payments in the event of a Member's death during service.

10. Investment income

	Defined Benefit Section	2019 Defined Contribution Section	Total
	£	£	£
Income from pooled investment vehicles	10,438,419	-	10,438,419
Annuity income	61,320	-	61,320
Currency gain / (loss)	200,461	-	200,461
Interest on cash deposits	2,622	64	2,686
	10,702,822	64	10,702,886
2018			
Income from pooled investment vehicles	350,905	-	350,905
Annuity income	60,725	-	60,725
Currency gain / (loss)	(143,733)	-	(143,733)
Interest on cash deposits	661	-	661
	268,558	-	268,558

Notes to the Financial Statements (Cont)

11. Reconciliation of investments

	Value at 31 March 2018 £	Purchases at cost £	Sales proceeds £	Change in market value £	Value at 31 March 2019 £
Defined Benefit Section					
Pooled investment vehicles	205,331,529	200,423,506	(190,535,271)	3,565,257	218,785,021
AVC investments	955,380	65,415	(77,870)	3,580	946,505
	206,286,909	200,488,921	(190,613,141)	3,568,837	219,731,526
Cash deposits	1,500,000				-
	207,786,909				219,731,526
Defined Contribution Section					
Pooled investment vehicles	11,043,552	3,269,361	(1,079,500)	867,107	14,100,520

Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. The amount of indirect costs is not separately provided to the Scheme.

The Defined Contribution Section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the Trustee. The Scheme administrator allocates investment units to members. The Trustee may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting. Defined contribution assets are allocated to members and the Trustee as follows:

	2019 £	2018 £
Members	11,868,663	8,682,136
Trustee	2,231,857	2,361,416
	14,100,520	11,043,552

12. Investment management expenses

	Defined Benefit Section £	2019 Defined Contribution Section £	Total £
Administration, management and custody	201,605	42,342	243,947
Advisory	300,000	-	300,000
	501,605	42,342	543,947
2018			
Administration, management and custody	239,245	32,861	272,106
Advisory	300,000	14,400	314,400
	539,245	47,261	586,506

Notes to the Financial Statements (Cont)

13. Taxation

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

14. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2019	2018
	£	£
Defined Benefit Section		
Equities	38,432,925	51,884,483
Bonds	35,705,399	23,875,412
LDI	58,975,240	61,707,406
Cash	29,558,526	8,985,538
Multi-Asset	13,671,065	24,672,146
Property	10,566,068	9,523,125
Derivatives	7,347,191	7,923,682
Hedge funds	24,528,607	16,759,737
	<u>218,785,021</u>	<u>205,331,529</u>
Defined Contribution Section		
Multi-Asset	10,393,978	7,456,155
Bonds	2,786,060	2,761,003
Equities	809,783	766,287
Cash	110,699	60,107
	<u>14,100,520</u>	<u>11,043,552</u>

The Multi-Asset funds hold a variety of investments including equities, bonds, derivatives and commodities.

15. Defined Benefit Section AVC investments

The Trustee holds assets invested separately from the main Defined Benefit Section investments to secure additional benefits on a money purchase basis for those Defined Benefit Section members electing to pay Additional Voluntary Contributions. Members participating in this arrangement each receive an annual statement made up to the Scheme year end confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	2019	2018
	£	£
Prudential Assurance Company Ltd - with-profits insurance policy	946,505	955,380

Notes to the Financial Statements (Cont)

16. Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets have been fair valued using the above hierarchy levels as follows:

	As at 31 March 2019			Total £
	Level 1 £	Level 2 £	Level 3 £	
Defined Benefit Section				
Pooled investment vehicles	29,558,526	134,613,153	54,613,342	218,785,021
AVC investments	-	-	946,505	946,505
Cash deposits	-	-	-	-
	<u>29,558,526</u>	<u>134,613,153</u>	<u>55,559,847</u>	<u>219,731,526</u>
Defined Contribution Section				
Pooled investment vehicles	-	14,100,520	-	14,100,520
	<u>29,558,526</u>	<u>148,713,673</u>	<u>55,559,847</u>	<u>233,832,046</u>
	As at 31 March 2018			Total £
	Level 1 £	Level 2 £	Level 3 £	
Defined Benefit Section				
Pooled investment vehicles	8,985,538	151,791,447	44,554,544	205,331,529
AVC investments	-	-	955,380	955,380
Cash deposits	1,500,000	-	-	1,500,000
	<u>10,485,538</u>	<u>151,791,447</u>	<u>45,509,924</u>	<u>207,786,909</u>
Defined Contribution Section				
Pooled investment vehicles	-	11,043,552	-	11,043,552
	<u>10,485,538</u>	<u>162,834,999</u>	<u>45,509,924</u>	<u>218,830,461</u>

Notes to the Financial Statements (Cont)

17. Investment risk disclosures

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

- Credit risk – this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk – this comprises currency risk, interest rate risk and other price risk:
 1. Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
 2. Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
 3. Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives.

The Trustee's risk management policy is documented in the Statement of Investment Principles. These investment objectives and risk limits are implemented through the agreements in place with the Scheme's DCIO and monitored by the Trustee through its reviews of the investment portfolio.

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks are set out below.

Defined Benefit Section

(i) Credit risk

The Scheme is subject to credit risk in three ways:

1. By investing in pooled investment vehicles, the Scheme is directly exposed to credit risk in relation to units (or equivalent) held in the pooled investment vehicles
2. The Scheme is also indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles, such as bonds and swaps.
3. By holding cash balances in a bank account.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate, and diversification of investments amongst a number of pooled arrangements.

There are specific limits in the Fiduciary Management Agreement with Willis Towers Watson Ltd on maximum allocations to pooled vehicles:

- A maximum of 25% of assets in any fund investing primarily in cash, investment grade bonds and liability hedging instruments
- A maximum of 20% of assets in any other collective investment schemes.

As DCIO, Willis Towers Watson Ltd carries out due diligence checks on the appointment of new pooled investment managers and monitors incumbent managers on an ongoing basis, in particular where there are any changes to the regulatory and operating environment of the pooled manager.

Credit risk arising on bonds within a pooled investment vehicle is mitigated by investing predominantly in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. The Scheme also invests in non-investment grade bond pooled investment vehicles. This risk is managed by restrictions set in underlying manager documentation which aims to diversify the portfolio to minimise the impact of default by any one issuer.

Notes to the Financial Statements (Cont)

17. Investment risk disclosures (Cont)

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). The Scheme holds pooled investment vehicles that invest in government bonds, OTC derivative contracts (e.g. Repurchase agreements, Interest rate and inflation swaps) and cash. These funds fulfil a specific purpose in the Scheme's investment strategy, which is to match the characteristics of the Scheme's liabilities (Liability Driven Investments). These investments are also discussed under interest rate risk.

OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by the manager ensuring there is sufficient collateral arrangements in place and diversification of counterparties.

Cash is held within financial institutions which are at least investment grade credit rated.

The fiduciary manager is not permitted to participate in any securities lending on behalf of the Scheme except where lending takes place inside a pooled fund or through repurchase agreements as discussed above.

A summary of the investments subject to direct credit risk is shown in the table below:

Asset category	Investment grade	Un-rated	Total
Return - seeking	(£m)	(£m)	(£m)
Pooled investment vehicles	-	130.3	130.3
Liability matching	(£m)	(£m)	(£m)
Pooled investment vehicles	-	59.0	59.0
Cash	29.6	-	29.6
Total Scheme	29.6	189.3	218.9

A summary of the investments subject to indirect credit risk is shown in the table below:

Asset category	Investment grade	Non-investment grade	Total
Return - seeking	(£m)	(£m)	(£m)
Pooled investment vehicles	7.0	26.0	33.0
Liability matching	(£m)	(£m)	(£m)
Pooled investment vehicles	59.0	-	59.0
Cash	29.6	-	29.6
Total Scheme	95.6	26.0	121.6

(ii) Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets via pooled investment vehicles. The Trustee limits overseas currency exposure by imposing a minimum allocation to Sterling of 50% within the Fiduciary Management Agreement.

(iii) Interest rate risk

The Scheme is subject to interest rate risk through its credit holdings and on the Liability Driven Investments (LDI) which comprises government bonds, cash, interest rate swaps, inflation swaps and repurchase agreements held in pooled vehicles. The purpose of the Scheme's LDI investments is to match the interest rate (and inflation) sensitivity of the Scheme's liabilities. Therefore when considering the Scheme's liabilities, these investments are risk reducing.

As at 31 March 2019, the capital allocated to the liability matching portfolio represented c.27% of the total investment portfolio based on the fair value of the investments.

Notes to the Financial Statements (Cont)

17. Investment risk disclosures (Cont)

(iv) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes indirect investment in properties and other alternative investments via pooled vehicles. The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

Asset Class	Credit Risk		Market Risk		
	Indirect	Direct	Foreign exchange risk	Interest rate risk	Other price risk
Equities	-	✓	✓	-	✓
Credit	✓	✓	✓	✓	-
Property	-	✓	-	-	✓
Listed infrastructure	-	✓	✓	-	✓
Diversifying strategies	-	✓	✓	-	✓
Liability Driven Investments (High quality bonds and cash equivalents)	✓	✓	-	✓	-
Cash	✓	✓	-	-	-

Defined Contribution Section

Investment strategy

The Trustee's objective is to make available to members of the Scheme an appropriate range of investment options designed to generate income and capital growth, which together with new contributions from members and their Employer, will provide a retirement amount. The SIP outlines the investment objectives and strategy for the Defined Contribution (DC) assets of the Scheme.

The investment funds offered to members are white label funds provided by the investment provider as follows:

- Equity
- Bonds
- Cash
- Multi-assets

The Trustee has an investment management agreement in place with investment providers that sets out guidelines for the underlying investments held by the funds. The day to day management of the funds is the responsibility of the investment provider, including the direct management of credit and market risks. The investment provider may then itself delegate that responsibility to other providers. The Trustee monitors the underlying risks by quarterly investment reviews of the investment provider.

(i) Credit risk

The DC Section is exposed to credit risk through its holding in units of the funds provided by Zurich Assurance Limited. The investment provider is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders. The Trustee monitors the credit worthiness of the investment provider from time to time. The investment providers invest all the Scheme's funds in its own investment unit linked funds. In the event of default by the investment provider the Scheme is protected by the Financial Services Compensation Scheme. The DC section is also subject to indirect credit and market risk arising from the underlying investments held in the white label funds. Member level risk exposures will be dependent on the funds invested in by members. At the Scheme year-end, bond and cash funds were exposed to underlying credit risk. The Trustee only invests in funds where the financial instruments and all counterparties are at least investment grade.

(ii) Market risk

The Scheme's DC Section is subject to indirect foreign exchange, interest rate and other price risk arising from the underlying financial instruments held in the funds managed by the investment provider.

- The equity fund is exposed to foreign exchange and other price risk.
- The bond fund is exposed to foreign exchange and other price risk.
- The cash fund is exposed to foreign exchange and other price risk.
- The multi asset fund is exposed to foreign exchange, interest rate and other price risk.

Notes to the Financial Statements (Cont)

20. Current liabilities

	Defined Benefit Section	2019 Defined Contribution Section	Total
	£	£	£
Unpaid benefits	(257,476)	(63,966)	(321,442)
Accrued expenses	(110,287)	(13,186)	(123,473)
Due to DB Section	-	(92,239)	(92,239)
Other creditors	(5,117)	-	(5,117)
	(372,880)	(169,391)	(542,271)
		2018	
Unpaid benefits	(40,317)	(80,069)	(120,386)
Accrued expenses	(160,726)	(10,762)	(171,488)
Due to DB Section	-	(106,312)	(106,312)
Other creditors	(5,104)	-	(5,104)
	(206,147)	(197,143)	(403,290)

21. Related party transactions

The Scheme has received contributions in respect of Trustee Directors (Quentin Compton-Bishop, Lauren Smalley & Jennifer Davies) who are contributing Members of the Scheme. These transactions are made in accordance with the Scheme Rules.

Transactions with related parties of the Scheme have been disclosed in the Annual Report as follows:

- Contributions receivable from the Employer are disclosed in note 3.
- The Scheme is administered by the Employer's HR department and the fees payable are included in note 8 under Administration expenses.

22. Employer-related investments

There were no direct employer-related investments at the year-end.

Contributions are normally received by the Trustee in the subsequent month to that in which they are due. Under the accruals basis of accounting, these contributions are therefore shown as outstanding. However, as the contributions were received in line with the Schedule of Contributions after the year end, they do not become employer-related investments.

23. Employer-related investments

As explained on page 4 in the Trustee's report, on 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes.

The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps. It is not possible to estimate the value of any such adjustments at this time.

Schedule of Contributions

Schedule of Contributions

Name of Scheme The University of Warwick Pension Scheme

In accordance with Section 227 of the Pensions Act 2004 UPS Pension Trustee Limited ("the Trustee") has prepared the following Schedule of Contributions for The University of Warwick Pension Scheme ("the Scheme"), after obtaining the advice of Lloyd Cleaver, the Scheme Actuary. The Trustee has discussed and agreed this Schedule of Contributions with the University of Warwick, on behalf of all participating employers (collectively referred to as "the University").

Contributions to be paid towards the Scheme from 1 February 2018 to 31 March 2027

Member Contributions – DB Section

Other than voluntary contributions, contributions of 5.5% per annum, expressed as a percentage of Pensionable Earnings, are payable towards the Scheme by, or on behalf of, active members.

University Contributions – DB Section

The Trustee and the University have agreed that overall flat rate contributions of £3.29m per annum are payable towards the Scheme by the University in monthly instalments, which comprises contributions in respect of future accrual of benefits of active DB Section members, the provision of death-in-service benefits, the expenses of administering the Scheme (including PPF levies) and deficit shortfall contributions.

In respect of future accrual of benefits of active DB Section members, the provision of death-in-service benefits and the expenses of administering the Scheme (including PPF levies), regular contributions of 20.4% per annum, expressed as a percentage of Pensionable Earnings, are included within the overall flat rate contribution figure of £3.29m per annum set out above.

In accordance with the Recovery Plan dated 31 March 2017, the remaining contribution within the overall flat rate contribution figure of £3.29m per annum (after taking into account the regular contributions of 20.4% per annum, expressed as a percentage of Pensionable Earnings, set out above) will be used to eliminate the funding deficit.

In addition to the overall flat rate contributions of £3.29m per annum set out above, monthly shortfall contributions for the year ending 31 March 2017 are subject to a minimum annual payment of £1.25m. The Trustee will make the University aware of any additional contributions required if the minimum has been breached by 30 April 2017 and any additional contributions required to meet the annual minimum will be payable by the University no later than 31 July 2017.

Member and University Contributions – Heritage DC Section

Active members of the Heritage DC Section can choose from Compulsory Contribution rates of 3%, 4% or 5% of Pensionable Earnings, subject to meeting the minimum Compulsory Contributions detailed below, which is in line with the Deed of Amendment dated 30 September 2017:

- 1% of Pensionable Earnings for service to 31 March 2018;
- 2% of Pensionable Earnings for service between 1 April 2018 and 31 March 2019; and
- 3% of Pensionable Earnings for service from 1 April 2019.

Member contributions will be automatically increased, as required at the required dates, to ensure that members meet the minimum Compulsory Contribution rate.

The level of University contributions will depend on the rate of Compulsory Contributions the member chooses to pay as set out in the table overleaf:

Member Compulsory Contribution rate (as a % of Pensionable Earnings)	University contribution rate (as a % of Pensionable Earnings)
1%	2%
2%	4%
3%	6%
4%	8%
5%	10%

In addition to the Compulsory Contributions set out above, a member may, with the Trustee's agreement, also pay additional voluntary contributions (AVCs). There are no University matching contributions in respect of any AVCs. AVCs are those member only contributions paid over the maximum Compulsory Contribution of 5%.

Member and University Contributions – Enterprise DC Section

Active members of the Enterprise DC Section must contribute at the minimum Compulsory Contribution rates detailed below, which is in line with the Deed of Amendment dated 30 September 2017:

- 1% of Qualifying Earnings for service to 31 March 2018;
- 3% of Qualifying Earnings for service between 1 April 2018 and 31 March 2019; and
- 5% of Qualifying Earnings for service from 1 April 2019.

Member contributions will be automatically increased, as required at the required dates, to ensure that members meet the minimum Compulsory Contribution rate.

The level of University contributions will depend on the applicable rate of Compulsory Contributions the member pays as set out in the table below:

	Member Compulsory Contribution rate (as a % of Qualifying Earnings)	University contribution rate (as a % of Qualifying Earnings)
To 31 March 2018	1%	1%
1 April 2018 to 31 March 2019	3%	2%
From 1 April 2019	5%	3%

In addition to the Compulsory Contributions set out above, a member may, with the Trustee's agreement, also pay AVCs. There are no University matching contributions in respect of any AVCs paid.

Reserve Account

The Trustee maintains a Reserve Account which, subject to adequacy, is available to be applied at the direction of the Principal Employer. The value of the Reserve Account shall never be less than zero. At this time, in line with the Letter of Direction dated 1 December 2017, the Principal Employer directs that the Reserve Account be used to meet DC Section expenses including the provision of life assurance and incapacity benefits.

In line with the Letter of Direction dated 1 December 2017, contributions to the Reserve Account in respect of the Heritage DC Section were set to nil with effect from 1 January 2018, with an annual review by University management to set appropriate future contribution levels.

In line with the Letter of Direction dated 1 December 2017, contributions to the Reserve Account in respect of the Enterprise DC Section were set to 0.5% of Pensionable Earnings with effect from 1 January 2018 with an annual review by University management to set appropriate future contribution levels.

Paying contributions

All contributions set out within this schedule, with the exception of any additional shortfall contributions required to meet the minimum annual payment for the year to 31 March 2017, are payable monthly and are to be made on or before the 19th of the month immediately following the month to which they relate

For members of any section participating in Pensions Salary Sacrifice, the member's contributions will be paid by way of salary sacrifice in accordance with the terms of Pensions Salary Sacrifice. The total University contribution rate for these members will be the sum of the member's applicable contribution rate and the respective University contribution rate.

Administration expenses

Administration expenses are met from the Scheme's assets. The Technical Provisions and contribution rates include an allowance for the expenses borne by the Scheme, including allowance for PPF levies.

This Schedule of Contributions has been agreed by the Trustee of The University of Warwick Pension Scheme:

Signed on behalf of the Trustee of The University of Warwick Pension Scheme

Name: 

Position: Director

Date: 1 February 2019

Name: 

Position: Director/Secretary

Date: 1 February 2019

This Schedule of Contributions has been agreed by the University:

Signed on behalf of the University

Name

Position:

Date:

Chair's Statement

1. Introduction

- 1.1. This statement has been prepared by UPS Pension Trustee Limited ("the Trustee"), the Trustee of the University of Warwick Pension Scheme ("the Scheme"), and reports upon how the Trustee has complied with the defined contribution (DC) governance standards. These standards were introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and amended by the Occupational Pension Scheme (Administration and Disclosure) (Amendment) Regulations 2018 ("the Regulations").
- 1.2. The reporting period covered by this statement is 1 April 2018 to 31 March 2019 ("the reporting period").
- 1.3. As required by the Regulations, the Trustee will publish this Statement on a publicly accessible website. The web address for the website will be: <https://warwick.ac.uk/pensions/ups>

2. The Scheme's DC arrangements

- 2.1. Over the reporting period, the Scheme's DC arrangements comprised the following:
 - 2.1.1. A Defined Contribution Section ("the DC Section") which is open to future contributions and is used as a qualifying workplace pension scheme for auto-enrolment purposes. This is a bundled arrangement with administration and investment management services provided by Scottish Widows.
 - 2.1.2. A separate AVC arrangement provided by Prudential which holds benefits for DB Section members.

3. The DC Section's default investment arrangement

- 3.1. Over the reporting period, the DC Section had one default investment arrangement for the purposes of the regulations, the Zurich Passive Interim Lifestyle Strategy. This was implemented in January 2017 and its design took account of the needs of DC Section members as well as the Trustee's own investment beliefs.

Default investment arrangement design and objectives

- 3.2. The key features of the Zurich Passive Interim Lifestyle Strategy are as follows:
 - 3.2.1. It is structured as a lifestyle investment strategy which invests across a series of different multi-asset investment funds depending upon each member's term to their Normal Retirement Age (NRA). The multi-asset funds are designed to provide exposure to different degrees of investment risk.
 - 3.2.2. When a member is more than 42 years from NRA, the Zurich Passive Interim Lifestyle Strategy will invest wholly in the Multi-Asset V Fund.
 - 3.2.3. From 42 years up to 7 years before each members NRA, the Zurich Passive Interim Lifestyle Strategy looks to reduce the level of investment risk by automatically and gradually switching out of the Multi-Asset V Fund. It initially switches into the Multi-Asset IV Fund, followed by the Multi-Asset III Fund and then the Multi-Asset II Fund. At 7 years from NRA it will invest wholly in the Multi-Asset II Fund.
 - 3.2.4. Over the final 7 years to NRA, the Zurich Passive Interim Lifestyle Strategy will gradually switch a proportion of each member's investments into the Annuity Purchase Fund and the Money Market Fund. At NRA it will target a portfolio that invests 35% in the Multi-Asset II Fund, 40% in the Annuity Purchase Fund and 25% in the Money Market Fund.

Aims and objectives of the default investment arrangement

- 3.3. The Zurich Passive Interim Lifestyle Strategy aims to grow the value of a member's benefits over the longer term whilst providing less volatility (but a potentially lower return) than investing solely in a portfolio of global equities. The value of these funds can go down as well as up.
- 3.4. The Zurich Passive Interim Lifestyle Strategy is designed to limit the extent to which members' benefits are exposed to large fluctuations in value in the approach to NRA. The portfolio at NRA has been designed to provide flexibility at retirement by being broadly appropriate regardless of how each member takes their retirement income (e.g. cash, annuity purchase or drawdown).

Alternative investment options

- 3.5. Alongside the Zurich Passive Interim Lifestyle Strategy, the Trustee has made available three additional investment strategies that target Annuity Purchase, Drawdown and Cash at NRA. These all use the same portfolio for growth as the Zurich Passive Interim Lifestyle Strategy and it is only in the final 7 years where the investment portfolio varies.
- 3.6. The Trustee also provides access to a range of four DC Section specific investment funds for members to self-select; the UPS Balanced Growth Fund, the UPS Equity Growth Fund, the UPS Money Market Fund and the UPS Pre-Retirement Fund.

Review of the default investment arrangement

- 3.7. The Trustee, together with its professional advisers, monitors the investment options accessed through the DC Section on a quarterly basis. This monitoring looks at the performance of the funds, to ensure that they are consistent with the stated aims and objectives, as well as any developments or changes at the fund manager. The Trustee is happy that the Zurich Passive Interim Lifestyle Strategy has performed in line with its stated aims and objectives over the reporting period.
- 3.8. The last strategic review of the DC Section's default investment arrangement, as well as the range of alternative investment options, was completed in June 2016. As part of this review, the Trustee considered the membership profile of the DC Section and membership analysis to ascertain the potential needs of members at retirement.
- 3.9. As a result of this review, the Trustee implemented the Zurich Passive Interim Lifestyle Strategy and alternative de-risking options described above.
- 3.10. The next strategic review of the DC Section's default investment arrangement, as well as the wider range of investment options offered to members, will be completed in 2019.

Further information on investments

- 3.11. Information on the range of investment options provided through the DC Section is available in the Statement of Investment Principles (SIP) which was last reviewed in November 2018. A further update to the SIP is currently underway to take account of the Trustee's view on the financial materiality of Environmental, Social and Governance (ESG) factors and this will be published online by 30 September 2019. For the purposes of Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 the SIP sets out further details around the Trustee's investment objectives, as well as the default investment strategy.

4. Core financial transactions

- 4.1. The Regulations require the Trustee to ensure that core financial transactions are processed promptly and accurately. Core financial transactions comprise:
- 4.1.1. The investment of contributions.
 - 4.1.2. Transfers into and out of the DC Section.
 - 4.1.3. Investment switches.
 - 4.1.4. Payments out of the DC Section in respect of members.

DC Section administration

- 4.2. Over the reporting period the administration functions of the DC Section were outsourced to, and completed by, Scottish Widows as a provider of DC administration and investment services to the Scheme. The scope of these administration functions are recorded in detail in the DC Section's Services Agreement. Previously Scottish Widows would have been referred to as Zurich. This change reflects Scottish Widows' acquisition of Zurich. The formal transfer of business took effect from 1 July 2019 and there have been no changes to the platform on which the DC Section is run as a direct result of this.
- 4.3. To ensure the accuracy and timeliness of all DC Section core financial transactions, the Trustee has established robust reporting and monitoring processes.
- 4.4. The day-to-day monitoring of administration standards is undertaken by the University's "in-house" pension's team who scrutinise the performance of all service providers to the DC Section. The Pensions Manager reports back to the Trustee on anecdotal experience as part of the quarterly Trustee meetings and any immediate concerns are escalated to the Trustee as appropriate.
- 4.5. Service Level Agreements (SLAs) have been agreed as part of the contract between the Trustee and Scottish Widows. These SLAs set out the agreed maximum timescales and accuracy standards for all services provided by Scottish Widows in respect of the DC Section. Scottish Widows separates its SLA's across the following areas. Core financial transactions are included under 'Time Critical' processes, as follows:

SLA area	Target
Time Critical Processes	100%
Manual Administration	95%
Call Handling	97%

- 4.6. The agreed SLAs for each of the individual core financial transactions identified in 4.1 above are as follows:

Core financial transaction	SLA
Investment of contributions	24 hours from date of receipt
Transfer into the DC Section	Act on instruction by end of the following Business Day
Transfer out of the DC Section	Act on instruction within 2 Business Days
Investment switches	Act on instruction by end of the following Business Day
Payments out of the Plan	Act on instruction within 2 Business Days

- 4.7. Scottish Widows provides the Trustee with quarterly administration reports that document its performance against the agreed SLAs. The Trustee considers these reports in detail as a regular item at its quarterly meetings.
- 4.8. Over the reporting period, Scottish Widows completed an average of 93.75% of its Time Critical processes within the target SLA's.
- 4.9. As part of its ongoing consideration of service standards, the Trustee noted that the SLAs achieved by Scottish Widows over the reporting period for its Time Critical processes had fallen below the target of 100%. This related to a handful of tasks undertaken in Q1 2019 that were completed outside of the target SLA. The Trustee asked Scottish Widows to undertake a full review of these delays to ensure that no members had suffered financial detriment as a result. Scottish Widows reported back to the Trustee with its findings and confirmed that the affected members had not been disadvantaged. In addition, Scottish Widows confirmed that it had completed root-cause analysis to ensure that such delays are not encountered in the future. The Trustee was satisfied that the action taken by Scottish Widows had adequately addressed its concerns.
- 4.10. Administration is captured as part of the Scheme's risk register and any DC Section specific risks are clearly documented. This includes details of the controls established by the Trustee and records details of any required actions.
- 4.11. Monitoring of accuracy is undertaken via the auditing of the Scheme's annual report and accounts and periodic auditing of the Scheme's membership data. In addition, the administrator's processes are subject to internal controls procedures.
- 4.12. There were no significant issues reported to or identified by the Trustee in connection with either the promptness or accuracy of core financial transactions processed during the period covered by this statement. As is mentioned above, there has been some underperformance against SLAs, and this has been addressed. The Trustee will continue to monitor this.

AVC administration

- 4.13. As the administrator of the Defined Benefit Section ("the DB Section") of the Scheme, the Trustee has delegated the administrative oversight of the separate AVC arrangements held with Prudential to Barnett Waddingham.
- 4.14. Barnett Waddingham report back to the Trustee as part of the quarterly Trustee meetings with any specific issues relating to the administration of the separate AVC policies.

Investment transition costs over the reporting period

- 4.15. There were no investment transitions completed over the reporting period.

Trustee's view of core financial transactions

- 4.16. Taking the above into consideration, the Trustee is confident that all core financial transactions over the reporting period have been processed promptly and correctly. The Trustee notes that there were no issues relating to core financial transactions over the reporting period.

5. Charges and transaction costs

5.1. Charges for the administration, communication and investment services provided to the Scheme's DC arrangements are structured on a bundled basis and consist of both explicit and implicit costs:

5.1.1. Explicit costs: these are collected by explicit deduction of investment units and are expressed as a percentage of the value of each member's holdings within an investment fund. These are referred to as a Total Expense Ratio (TER) and include the explicit Annual Management Charge (AMC), the Investment Management Charge (IMC) as well as any explicit Additional Expenses (AE) incurred over the period.

5.1.2. Implicit costs: these relate to the charges and transaction costs incurred within an investment fund arising from the trading activities of the fund e.g. incurred in the buying and selling of securities, which are not accounted for in the explicit charges. These implicit charges impact on the investment returns achieved by the investment fund and vary day-to-day according to each fund's investment approach and prevailing market conditions. We refer to these as Transaction Costs.

DC Section charges and transaction costs

5.2. The following table provides details of the explicit and implicit costs applied to each of the investment options provided through the DC Section over the reporting period. This data has been sourced from Scottish Widows:

Investment option	Zurich Fund Charge (ZFC)	Annual Management Charge (AMC)	Total Expense Ratio (TER)	Transaction Costs*
Zurich Passive Multi-Asset V CS1	0.410%	0.094%	0.504%	-0.019%
Zurich Passive Multi-Asset IV CS1	0.410%	0.095%	0.505%	-0.022%
Zurich Passive Multi-Asset III CS1	0.420%	0.097%	0.517%	-0.022%
Zurich Passive Multi-Asset II CS1	0.420%	0.095%	0.515%	-0.024%
Zurich Passive Multi-Asset I CS1	0.410%	0.093%	0.503%	-0.026%
Zurich Passive Annuity Purchase CS1	0.410%	0.085%	0.495%	-0.027%
Zurich Money Market CS1	0.440%	0.156%	0.596%	0.004%
UPS Balanced Growth	0.410%	0.084%	0.494%	-0.020%
UPS Equity Growth	0.410%	0.086%	0.496%	-0.019%
UPS Money Market	0.360%	0.140%	0.500%	0.016%
UPS Pre-Retirement	0.410%	0.105%	0.515%	-0.147%

*in certain circumstances the methodology used for calculating transaction costs (known as slippage) can lead to negative costs being reported. This can be, for example, where other market activity pushes the price of the asset being traded down, whilst the transaction was in progress, resulting in the asset being purchased for a lower price than when the trade was initiated.

AVC arrangement costs and charges – Prudential

- 5.3. Plan members that hold AVC benefits with Prudential are invested in the Prudential With Profits Fund. Details of the charges and transaction costs quoted by Prudential for the With Profits Fund are provided in the table below:

Fund name	TER	Transaction costs	Effective date [1]
Prudential With Profits Fund	Prudential does not state an explicit TER for its With Profits Fund as charges are deducted before bonuses are applied to members' benefits, however they are estimated to be in the region of 1%.	0.05%	30/06/2018

[1] The Trustee's advisers have requested transaction cost information from Prudential, but Prudential has confirmed it is not able to provide transaction cost information over the reporting period in time for inclusion in this Statement. Prudential has stated that this is because it does not have all the necessary information for the underlying fund(s) or that this information was received after our cut-off. Prudential also states that the fund management industry is having to develop and introduce new systems and processes to report transaction costs using the 'slippage' methodology and this is taking it longer than expected.

Prudential is aiming to be able to refresh its transaction cost data at the start of each quarter and expects to be able to provide data for the year to 31 March 2019 by the end of October 2019. Once received the Trustee will review this information to understand whether it has a material impact upon the figures quoted above. The Trustee working with its advisers will continue to exert pressure on Prudential to ensure this information can be included in future years.

6. Demonstrating the impact of costs and charges

- 6.1. To demonstrate the impact of the costs and charges applied through the DC Section, in this year's Chair's Statement the Trustee has produced illustrations in line with September 2018 guidance from the Department for Work & Pensions entitled "Cost and charge reporting: guidance for trustees and managers of occupational schemes". These illustrations are set out below, and are designed to cater for representative cross-sections of the membership of the Scheme's DC Section.
- 6.2. For each individual illustration, each savings pot has been projected twice; firstly to allow for the assumed investment return gross of the costs and charges of the fund, and then again, but adjusted for the cumulative effect of the costs and charges of the fund.
- 6.3. To determine the parameters used in these illustrations, the Trustee, with support from the DC Section provider, Scottish Widows, has analysed the membership of the DC Section and ensured that the illustrations take into account the following:
- 6.3.1. A representative range of pot sizes.
 - 6.3.2. A representative range of real terms investment returns (gross of costs and charges), including the lowest, the highest and the most popular (by number of members).
 - 6.3.3. A representative range of costs and charges, including the lowest and the highest.

- 6.3.4. A representative period of membership, covering the approximate duration that the youngest member would take to reach target investment age.
- 6.4. The Trustee has included future contributions in these illustrations as the DC Section remains open to contributions. For those members who are no longer active, the Trustee has also produced illustrations that assume no future contributions will be paid.

Guidance to the illustrations

The following notes on the illustrations should also be read;

Projected pot sizes are shown in today's terms and do not need to be reduced further for the effects of future inflation. Inflation is assumed to be 2.5%.

The retirement age is assumed to be age 65

The starting pot size is assumed to be £2,000

Contributions are assumed to be £100 per month for active members with no contributions from deferred members

Values shown are estimates and not guaranteed.

The charges used are those shown earlier in this Chair's Statement

The projected growth rates, gross of costs and charges, for each fund or arrangement are in line with the 2019 Statutory Money Purchase Illustrations (SMPIs), as follows:

Default investment arrangement

Years to retirement	Projected Growth Rate (Average)
1	0.70%
3	0.40%
5	0.10%
10	0.50%
15	0.80%
20	1.00%
25	1.20%
30	1.40%
35	1.50%
40	1.60%

UPS Self Select Funds

Years to retirement	Projected Growth Rate (Average)
UPS Equity Growth	3.1% above inflation
UPS Balanced Growth	2.2% above inflation
UPS Pre-Retirement	0.8% below inflation
UPS Money Market	2.0% below inflation

Default Lifestyle Strategy – Active members

This has been selected as it is the most popular investment option selected through the DC Section. The illustrations show the impact of cost and charges for an active member investing in the strategy to age 65 starting at different ages. The illustrations assume a £100 per month contribution.

Years	Age Now 25		Age Now 35		Age Now 45		Age Now 55		Age Now 60	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	3,250	3,230	3,240	3,220	3,230	3,220	3,210	3,200	3,190	3,180
3	5,840	5,780	5,800	5,740	5,770	5,710	5,690	5,630	5,580	5,520
5	8,530	8,390	8,480	8,340	8,370	8,230	8,190	8,050	7,870	7,750
10	15,700	15,200	15,700	15,200	15,000	14,500	14,000	13,600	-	-
15	23,800	22,800	23,400	22,300	21,900	21,000	-	-	-	-
20	32,800	30,900	31,000	29,200	27,800	26,200	-	-	-	-
25	42,200	39,100	38,900	36,100	-	-	-	-	-	-
30	51,100	46,600	44,800	41,000	-	-	-	-	-	-
35	60,100	54,100	-	-	-	-	-	-	-	-
40	66,000	58,400	-	-	-	-	-	-	-	-

Note on how to read this table: If an Active member aged 25 had £2,000 invested in this strategy, when they came to retire in 40 years, the fund could grow to £66,000 if no charges are applied but to £58,400 with charges applied.

Default Lifestyle Strategy – Deferred members

This has been selected as it is the most popular investment option selected through the DC Section. The illustrations show the impact of cost and charges for a deferred member investing in the strategy to age 65 starting at different ages. The illustrations assume that no further contributions are made.

Years	Age Now 25		Age Now 35		Age Now 45		Age Now 55		Age Now 60	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	2,050	2,040	2,040	2,030	2,040	2,030	2,020	2,010	2,010	2,000
3	2,150	2,120	2,130	2,100	2,120	2,080	2,070	2,040	2,010	1,980
5	2,250	2,200	2,230	2,170	2,190	2,130	2,110	2,060	1,990	1,940
10	2,520	2,390	2,480	2,360	2,330	2,210	2,110	2,000	-	-
15	2,810	2,600	2,730	2,520	2,470	2,280	-	-	-	-
20	3,130	2,820	2,910	2,620	2,470	2,220	-	-	-	-
25	3,440	3,020	3,080	2,700	-	-	-	-	-	-
30	3,670	3,130	3,070	2,620	-	-	-	-	-	-
35	3,880	3,230	-	-	-	-	-	-	-	-
40	3,880	3,140	-	-	-	-	-	-	-	-

Note on how to read this table: If a Deferred member aged 25 had £2,000 invested in this strategy, when they came to retire in 40 years, the fund could grow to £3,880 if no charges are applied but to £3,140 with charges applied.

Self-select funds – Active members

The illustrations shown below are for a representative selection of the funds members may invest in through the DC Section. They were selected to reflect the range of projected returns and charges. The illustrations assume a £100 per month contribution.

Years	UPS Equity Growth		UPS Balanced Growth		UPS Pre-Retirement		UPS Money Market	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	3,260	3,250	3,240	3,220	3,160	3,150	3,130	3,120
3	5,910	5,850	5,800	5,740	5,470	5,410	5,330	5,280
5	8,740	8,600	8,480	8,340	7,740	7,620	7,450	7,340
10	16,600	16,100	15,700	15,200	13,200	12,900	12,400	12,000
15	25,800	24,700	23,700	22,700	18,600	17,800	16,900	16,200
20	36,600	34,500	32,700	30,900	23,700	22,500	20,900	19,900
25	49,200	45,700	42,800	39,800	28,700	26,900	24,600	23,100
30	64,000	58,400	54,000	49,400	33,400	31,000	28,000	26,000
35	81,300	72,900	66,500	60,000	38,100	34,800	31,000	28,600
40	101,000	89,500	80,500	71,400	42,500	38,500	33,800	30,800

Note on how to read this table: If an Active member aged 25 had £2,000 invested in the UPS Equity Growth Fund, when they came to retire in 40 years, the fund could grow to £101,000 if no charges are applied but to £89,500 with charges applied.

Self-select funds – Deferred members

The illustrations shown below are for a representative selection of the funds members may invest in through the DC Section. They were selected to reflect the range of projected returns and charges. The illustrations assume that no further contributions are made.

Years	UPS Equity Growth		UPS Balanced Growth		UPS Pre-Retirement		UPS Money Market	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	2,060	2,050	2,040	2,030	1,980	1,970	1,960	1,950
3	2,190	2,160	2,130	2,100	1,950	1,920	1,880	1,850
5	2,340	2,280	2,230	2,170	1,920	1,870	1,810	1,760
10	2,730	2,600	2,480	2,360	1,850	1,760	1,640	1,560
15	3,200	2,960	2,770	2,570	1,790	1,650	1,490	1,380
20	3,740	3,380	3,090	2,800	1,720	1,550	1,350	1,220
25	4,380	3,860	3,450	3,040	1,660	1,460	1,220	1,070
30	5,130	4,400	3,850	3,310	1,600	1,370	1,110	950
35	6,000	5,020	4,300	3,600	1,540	1,290	1,010	840
40	7,020	5,730	4,800	3,920	1,490	1,210	910	740

Note on how to read this table: If a Deferred member aged 25 had £2,000 invested in the UPS Equity Growth Fund, when they came to retire in 40 years, the fund could grow to £7,020 if no charges are applied but to £5,730 with charges applied.

7. Value for members

- 7.1. The Regulations require the Trustee to assess the extent to which the charges and transaction costs borne by members represent good value. These member borne deductions cover the cost of providing the investment management services, administration services and communications.
- 7.2. The annual value for members' assessment relating to the reporting of this Statement was undertaken by the Trustee's professional advisers, Barnett Waddingham LLP, as at 31 March 2019.
- 7.3. The assessment recognised that low cost does not necessarily mean better value, so considered a range of different factors, including:
 - 7.3.1. in relation to investment services:
 - 7.3.1.1. the range of investment options available and the design and suitability of the default investment arrangement.
 - 7.3.1.2. the arrangements for monitoring the performance of the investment funds.
 - 7.3.1.3. the investment governance arrangements in place.

7.3.2. in relation to administration services:

7.3.2.1. the arrangements for monitoring the service standards of the administrator.

7.3.2.2. the administration procedures and process.

7.3.2.3. data and record keeping practices.

7.3.3. in relation to communication services:

7.3.3.1. the design of the communications strategy.

7.3.3.2. the quality of communications issued to members.

7.3.3.3. the degree of support provided to members.

7.3.4. other options available in the market.

7.4. The assessment considered various factors under each element and looked at these in 'Absolute' and 'Relative' terms. Absolute considering the DC Section on its own merits and Relative comparing to alternative options.

7.5. The assessment concluded that the DC Section continues to provide **excellent value** for members and that there are no areas in which the DC Section's arrangements detract value.

7.6. The assessment also noted the progress made during 2018/2019 to gain greater clarity on the additional transaction costs charged to member funds, and the Trustee is pleased to be able to report those costs in this Statement (Section 5.2).

AVC benefits

7.7. As part of its independent assessment, Barnett Waddingham also reviewed the degree to which the AVC benefits invested with Prudential represent value for members. This assessment highlighted that the arrangements operate via legacy platforms and that there is limited scope for making significant improvements given their size. However the assessment concluded that the AVC arrangement provides **reasonable value** to members for the following reasons

7.7.1. Members investing in the arrangement can use their benefits to fund their tax free cash entitlements through the defined benefit (DB) section of the Scheme.

7.7.2. The charges are broadly aligned with similar types of arrangements offered elsewhere.

7.7.3. Members benefit from the administration services provided by Barnett Waddingham in the ongoing management of these benefits.

8. Trustee knowledge and understanding

8.1. In the reporting period the Trustee comprised six Trustee Directors, of whom one is the Chair. Two of the Trustees are member-nominated, and four are employer nominated, meeting statutory requirements for the composition of trustee boards.

Knowledge and expertise of the Trustee

8.2. All Trustee Directors are required to complete a formal training programme both following appointment and on an ongoing basis to ensure they have the necessary skills and knowledge required to effectively discharge their duties.

8.3. A skills matrix is in place which identifies the expertise each Trustee Director brings to the Board and is used to identify any specific areas whether further training may be needed.

- 8.4. Trustee training is considered at Trustee meetings and the Trustee Directors are asked to provide feedback and suggest topics for future training sessions. External training is also sought on topics relevant to the Trustee Directors duties.
- 8.5. Over the reporting period, the Trustee has undertaken training and attended seminars which include, but are not limited to:
- 8.5.1. 7 June 2018 Trustee Meeting – the Trustee received an update from its DC advisers on DC hot topics, legislative developments and GDPR matters. They also presented advice on their assessment of value for members provided by the DC Section, as well as their assessment of the DC Section against the Pension Regulator's DC Code and the Chair's Statement.
 - 8.5.2. 28 June 2018 – a detailed DC training session was provided to the Trustees by its DC advisers covering key issues and developments in relation to DC pensions. This training is accredited by the Pensions Management Institute and covered amongst other things; legislative developments, general and investment governance, value for member and engagement with members.
 - 8.5.3. 7 September 2018 – the Trustee Directors discussed the future strategy of the DC Section through consideration of history of the wider Scheme and considering future strategy for the 31 March 2019 valuation. The Trustee Directors also considered DC hot topics.
 - 8.5.4. 29 March 2019 – the Trustee Directors were briefed on, and discussed, their board effectiveness review, for example conflicts of interest policy, risk register and skills matrix.
- 8.6. The Trustee Directors all undertake training in an individual capacity and keep updated training records that are monitored by the Pensions Manager.
- 8.7. The Trustee considers that its training is consistent with TPR's Trustee Knowledge and Understanding requirements (Code of Practice 7) and provides a mixture of generic and bespoke training sessions. This, together with the ongoing work in relation to the DC Section and the access to professional advisers ensures that the Trustee has sufficient knowledge and understanding in of the relevant principles relating to the funding, investment of occupational schemes and the law relating to pensions and trusts.

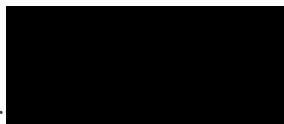
Access to professional advice

- 8.8. The Trustee consults externally with its professional advisers as and when required, for example on investments, governance and legal matters. Its professional advisers alert the Trustee on a proactive basis to relevant changes in pensions legislation.
- 8.9. The Trustee Directors are aware of their legal duties in relation to the DC Section's trust deed and rules as well as other relevant Plan documentation, both through their overall experience in managing the DC Section as well as the Trustee's review of such documentation over the reporting period. There have been no changes to the Scheme documents in the period covered by this statement, but a review of the Trust Deed and Rules has taken place and a update is due to be undertaken in the coming year.
- 8.9.1. The Trustee, alongside its professional advisers, commenced a review of the DC Section's Statement of Investment Principles (SIP) to take account of ESG factors.
 - 8.9.2. The risk register is reviewed at least every 6 months (the last review was completed in June 2019) to ensure that all relevant risks have been identified.

8.9.3. The member DC booklets have recently been updated and a review of pension material is diarised in the business plan each year.

Assessment

8.10. The Trustee considers that the combined knowledge of the Trustee Board, skills and understanding together with the advice which is available to the Trustee from its professional advisers enables the Trustee to properly exercise its Trustee functions.



.....
James Hunt, for and on behalf of the Trustee of the University of Warwick Pension Scheme
Chair of the Trustee

24/9/19

.....
Date

Appendix 1 - DC Section Statement of Investment Principles

DRAFT pending approval 25 September 2019

1. Introduction

- 1.1. This Statement of Investment Principles (“the Statement”) has been prepared by UPS Pension Trustee Limited (“the Trustee”) and relates to the defined contribution (DC) benefits (“the DC Section”) provided through The University of Warwick Pension Scheme (“the Scheme”). The Statement sets out the principles which govern the decisions about the investments that enable the Scheme to meet the requirements of:
 - the Pensions Act 1995, as amended by the Pensions Act 2004; and
 - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015, incorporating changes as required by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- 1.2. In preparing this statement the Trustee has consulted the University of Warwick, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee’s investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates).
- 1.4. The Trustee will review this Statement at least every three years or if there is a significant change in any of the areas covered by the Statement or the demographic and profile of members.
- 1.5. The investment powers of the Trustee are set out in Section 10 of the DC Trust Deed and Rules, dated March 2010. This statement is consistent with those powers.

2. Choosing investments

- 2.1. The Trustee carefully considers its Investment Objectives, shown in the Appendix, when designing the range of investment options to offer to its members. The Trustee also acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings – and therefore, whilst seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of the DC Section.
- 2.2. The Trustee’s policy is to offer a range of lifestyle investment arrangements and a core range of investment funds that are suitable for the DC Section’s membership profile into which members can choose to invest their contributions and those contributions made by the employer. Details of these are given in the Appendix. In doing so, the Trustee considers the advice of their professional advisers, whom they consider to be suitably qualified and experienced for this role.

- 2.3. The DC Section is a bundled arrangement that is insured and invested with Scottish Widows. The day-to-day management of the DC Section's assets and the DC Section's Default Option (outlined in the Appendix) is delegated to Scottish Widows and through Scottish Widows the Trustee can access funds from a range of other investment managers as well as Scottish Widows' own funds. The DC Section's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.4. The Trustee reviews the appropriateness of the DC Section's investment strategy on an ongoing basis and is supported in this regard by its Investment Sub-Committee (ISC). The ISC has a 'terms of reference' which sets out its roles, responsibilities and powers. This ongoing review includes consideration of the continued competence of Scottish Widows as well as any other investment managers utilised through the DC Section with respect to their performance against their stated objectives and benchmarks.
- 2.5. The Trustee will consult the employer before amending the investment strategy.

3. Investment objectives

- 3.1. The Trustee has discussed and agreed key investment objectives in light of an analysis of the DC Section's membership profile as well as the constraints the Trustee faces in achieving these objectives. These are set out in the Appendix.

4. Kinds of investments to be held

- 4.1. The DC Section is permitted to invest in a wide range of assets including equities, bonds, cash, commercial property and alternatives.

5. The balance between different kinds of investments

- 5.1. Members can choose to invest in any of the funds detailed in the Appendix or can elect to invest in a lifestyle strategy. Where members do not choose where their contributions, and those made on their behalf by the employer, are invested, the Trustee will invest these contributions according to the default investment option set out in the Appendix.
- 5.2. The Trustee considers the merits of both active and passive management for the various elements of the DC Section's portfolio and may select different approaches for different asset classes or strategies.
- 5.3. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.

6. Risks

6.1. Risk in a defined contribution scheme lies with the members themselves. The Trustee has considered a number of risks when designing and providing suitable investment choices to members. A comprehensive list of risks is set out in the Trustee risk register, however, the main investment risks affecting all members are:

Inflation risk	The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term real rate of return.
Conversion risk	The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the lifestyle arrangements made available through the DC Section (see Appendix), the Trustee changes the proportion and type of investments so that in the run up to retirement the investments gradually start to more closely match how the Trustee expects members to access their retirement savings. The Trustee keeps under review the appropriateness of the strategies.
Retirement income risk	<p>The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustee periodically reviews the appropriateness of the investment options offered to ensure member outcomes can be maximised.</p> <p>Communications to members will seek to encourage them to regularly review the level of their contributions, but ultimately this is a risk which lies with each member.</p>
Investment manager risk	The Trustee monitors the performance of the DC Section's investment managers on a regular basis in addition to having meetings with them from time to time as necessary.
Concentration/Market risk	Each investment manager is expected to manage properly diversified portfolios and to spread assets across a number of individual shares and securities.
Currency risk	The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	The risk of loss of investment by the investment manager and custodian will be assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

- 7.1. The Trustee has regard to the relative investment return, net of fees, and risk that each asset class is expected to provide. The Trustee is advised by its professional advisors on these matters, whom it has deemed to be appropriately qualified. However, the day-to-day selection of investments is delegated to the investment managers.
- 7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

8. Realisation of investments

- 8.1. The Trustee has delegated the responsibility for buying and selling investments to its investment managers.

9. Socially Responsible Investment, Corporate Governance and Voting Rights

- 9.1. At the time of writing the Trustee is at a relatively early stage in developing its policy with regards to the new regulatory requirements on responsible investing, stewardship and sustainability. As developments occur, the Trustee will review its policy in this area and amend it from time to time.
- 9.2. The Trustee believes long-term sustainability to be an important and relevant issue to consider throughout the investment process. In particular the Trustee recognises that:
 - 9.2.1. An investment's ability to meet the Trustee's objectives can be influenced by a wide range of factors including environmental, social and governance (ESG) issues and stewardship
 - 9.2.2. ESG considerations and stewardship are therefore important aspects of responsible financial risk management in order to protect the value of investments and should improve long-term member financial outcomes.
- 9.3. Where ESG factors, stewardship and broader sustainable investment considerations are deemed to be financially material, the Trustee believes that they should be taken into account within the investment decision-making process.
- 9.4. The Trustee may consider non-financial matters as part of its overall decision making and setting of investment strategy including as and when views are proactively raised by members, and will continue to monitor and review its approach in this area.
- 9.5. As the DC Section's investments are held in pooled funds, ESG considerations are implemented by the investment managers of each fund. The Trustee monitors how ESG, climate change and stewardship are integrated within the investment process adopted by the investment managers and considers these issues with reference to its own beliefs as part of the criteria when reviewing the suitability of the DC Section's investment options.

Stewardship

- 9.6. The Trustee delegates the exercise of rights (including voting rights) attached to the DC Section's investments to its investment managers. The Trustee receives information from the investment managers on their approach to selecting investments, voting and engaging with companies with reference to ESG issues.
- 9.7. In selecting and reviewing its investment managers to the DC Section, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented.
- 9.8. The Trustee will consider ESG and stewardship using information from their advisers, investment managers and industry specialist bodies and in doing so, consider whether to review its own policy and procedures. The Trustee will report on ESG and stewardship at least annually, making this available to members.

10. Monitoring

- 10.1. Investment Performance: The Trustee reviews the performance of each investment option offered through the DC Section against the stated performance objective and, in doing this, the Trustee receives a performance monitoring report at least quarterly. This monitoring takes into account both short-term and long-term performance. The investment manager's overall suitability for each mandate will be monitored as frequently as the Trustee considers appropriate in light of both its performance and other prevailing circumstances.
- 10.2. Objectives: The Trustee monitors the suitability of the objectives for the DC Section (as detailed in the Appendix) and performance (net of fees) against these objectives at least every three years and also when there is any significant change in the investment policy, underlying economic conditions or the profile of the members.
- 10.3. Investment Choices: The Trustee monitors the ongoing appropriateness of the investment choices offered on a periodic basis.

11. Agreement

- 11.1. This Statement was agreed by the Trustee, and replaces any previous statements. Copies of this Statement and any subsequent amendments will be made available to the employer, the investment manager, the actuary and the Scheme auditor upon request.

Signed:.....

Date:.....

On behalf of the Trustee of the University of Warwick Pension Scheme

Appendix 2 - DB Section Statement of Investment Principles

DRAFT pending approval 25 September 2019

Section 1: Introduction

Pensions Acts

- 1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles pursued by the UPS Pension Trustee Limited (the "Trustee") of The University of Warwick Pension Scheme DB Section ("the Scheme").
- 1.2 The Trustee has consulted the University of Warwick ("the Employer") on the principles set out in this statement and will consult the Employer on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- 1.3 Before drawing up this statement, the Trustee has obtained and considered written advice from the Scheme's DB investment consultants (currently Willis Towers Watson). The Trustee will review this document regularly, at least every three years, and without delay following a significant change in investment policy.

Financial Services and Markets Act 2000

- 1.4 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for the selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

Scheme details

- 1.5 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries ("Members").

Section 2: Division of responsibilities

- 2.1 The Trustee has 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 Trustee delegates some of these responsibilities.
- 2.2 In particular, the Trustee delegates a number of tasks to an Investment Sub Committee ("ISC") as well as a Delegated Chief Investment Officer ("DCIO"), the latter function being carried out by Willis Towers Watson.

Trustee roles and responsibilities

- 2.3 The Trustee's primary investment role and responsibility is to set the overall strategic investment objectives for the Scheme, including a risk budget, return target, sustainable investment policy, broad strategic asset allocation policy, and broad risk-management framework for the Scheme (taking advice from the ISC and DCIO), and ensuring that these objectives remain appropriate over time.
- 2.4 The Trustee delegates a number of responsibilities to the ISC and DCIO (as set out below). However, the Trustee reserves the right to make decisions on all such matters subject to informing the ISC and DCIO as soon as practicable after a decision has been taken.

ISC roles and responsibilities

- 2.5 The ISC's roles and responsibilities include:
- Assisting the Trustee in developing an appropriate overall investment risk budget, return target, sustainable investment policy, broad strategic asset allocation policy, and broad risk-management framework for the Scheme.
 - Monitoring the overall progress of the Scheme and the underlying investment risk/return balance relative to the Trustee's strategic objectives and parameters, and reporting to the Trustee on an agreed frequency.
 - Monitoring the activity and performance of DCIO for the services provided as set out in DCIO's agreement with the Scheme, and reporting to the Trustee on an agreed frequency.

DCIO roles and responsibilities

2.6 The DCIO's roles and responsibilities include:

- Assisting the ISC (and, where appropriate, the Trustee) in the development of an overall investment risk budget, return target, sustainable investment policy, broad strategic asset allocation policy, and broad risk-management framework for the Scheme.
- Within the constraints of the agreed investment guidelines:
 - determining asset allocation
 - liability hedging design and implementation
 - reflecting Environmental, Social and Governance and broader sustainable investment considerations in the portfolio risk management process
 - selecting and de-selecting investment managers
 - implementing all asset transitions (including rebalancing).
- Leading and completing negotiations of investment manager agreements, including:
 - agreeing investment and commercial terms
 - obtaining, considering and acting on legal advice as appropriate
 - executing agreements on the Scheme's behalf under a Power of Attorney.

Underlying Investment Managers

2.7 Each underlying investment manager's responsibilities include:

- Discretionary management of the portfolio, including implementation (within agreed guidelines) of changes in the asset mix and selecting securities within each asset class.
- Providing regular statements of the assets they manage.
- The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Scheme.

Global Custodian and Performance Measurer

2.8 The Scheme currently contracts a global custodian, whose responsibilities include:

- Registering the Scheme's investment holdings.
- Providing independent transaction activity and valuation reporting on a monthly basis.
- Providing performance measurement services.

Professional Advisors

- 2.9 The Trustee currently uses a single firm for both actuarial advice and investment advisory and fiduciary management services as it believes this arrangement has certain advantages for the Scheme.

Scheme Actuary

2.10 The Scheme Actuary's responsibilities include:

- Performing the triennial (or more frequently, as required) valuations of the Scheme and advising on the appropriate contribution levels for the future.
- Liaising with the investment consultant on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.

Section 3: Long-term objectives and investment strategy

Scheme objectives

- 3.1 The long-term objective of the Trustee is for the Scheme to be fully funded on a gilt basis (which is taken to be the same basis as that underlying the technical provisions but using a gilt discount rate to assess the liabilities) by the year 2029.
- 3.2 The Trustee will review this performance objective regularly and amend as appropriate.

Investment strategy

- 3.3 The Trustee takes advice to determine an appropriate investment strategy for the Scheme consistent with the above long-term funding objective. This includes a risk budget and return target and a range of investment parameters, which are set out in a set of Investment Guidelines. The DCIO then implements the agreed strategy by managing the Scheme's portfolio in line with the agreed Investment Guidelines.
- 3.4 The investment strategy makes use of:
 - a range of instruments that seek to match changes in liability values
 - a diversified range of return-seeking assets, including a spectrum from index-tracking to actively managed portfolios
 - a range of sustainable investment practices (see below), recognising that this is part of good financial risk management.
- 3.5 The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Scheme's funding and investment objectives.
- 3.6 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

Section 4: Other investment policies

The Trustee also faces other requirements relating to investment, be they legislative or considered best practice.

Choosing investments

- 4.1 The Trustee has delegated responsibility to the DCIO to implement the Trustee's agreed investment strategy, including making certain decisions about investments (as set out in the Fiduciary Management and Investment Consulting Services Agreement with effective date of 1 April 2012) in compliance with Sections 34 and 36 of the Pensions Act.

Responsible investing, stewardship and sustainability

- 4.2 At the time of writing the Trustee is at a relatively early stage in developing its policy with regards to the new regulatory requirements on responsible investing, stewardship and sustainability. As developments occur, the Trustee will review its policy in this area and amend it from time to time.
- 4.3 The Trustee believes long-term sustainability to be an important and relevant issue to consider throughout the investment process. In particular the Trustee recognises that:
- an investment's financial success can be influenced by a wide range of factors including environmental, social and governance (ESG) issues and stewardship
 - ESG considerations and stewardship are therefore important aspects of responsible financial risk management in order to protect the value of investments and should improve long-term member financial outcomes.
- 4.4 Where ESG factors, stewardship and broader sustainable investment considerations are deemed to be financially material, the Trustee believes that they should be taken into account within the investment decision-making process. The Trustee may consider non-financial matters as part of its overall decision making and setting of investment strategy including as and when views are proactively raised by members, and will continue to monitor and review its approach in this area
- 4.5 The Trustee will consider ESG and stewardship using information from their advisers, investment managers and industry specialist bodies and in doing so, consider whether to review its own policy and procedures. The Trustee will report on ESG and stewardship at least annually, making this available to members.

4.6 The Trustee seeks to apply the principles outlined in 4.2-4.4 above via the selection and monitoring of the DCIO (and its associated approach to ESG and broader sustainability issues, as set out in 4.7 below). In particular, the Trustee has delegated:

- investment manager selection, de-selection and monitoring to the DCIO
- the selection, retention and realisation of investments to the DCIO and in turn to the Scheme's investment managers (in accordance with the Financial Services and Markets Act 2000, the selection of specific investments is delegated to investment managers)
- responsibility for the exercising of rights (including voting rights) attaching to investments to the Scheme's investment managers.

4.7 The DCIO:

- has a dedicated Sustainable Investment resource and a network of subject matter experts
- considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures, which the DCIO takes into account in the assessment
- has appointed Hermes EOS to undertake public policy engagement on its behalf
- fully embeds the consideration of ESG issues in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis:
 - whilst noting there may be limitations for each investment manager and asset strategy, the DCIO expects investment managers to have ESG processes that align with the investment risk and return characteristics of the strategy
 - where an investment manager's processes are deemed insufficient by the DCIO and the investment manager does not take steps to improve their approach, the investment manager's position in the portfolio may be reviewed and/or a decision may be taken not to proceed with an investment
 - the DCIO encourages and expects the Scheme's investment managers to sign up to local or other applicable Stewardship Codes, in keeping with good practice, subject to the extent of materiality for certain asset classes
- is itself a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

Liquidity and realisation of investments

4.8 The Scheme's administrator (currently Barnett Waddingham LLP) assesses the likely benefit outgo on a regular basis and ensures that sufficient cash reserves are available.

4.9 The Trustee's policy is that there should be sufficient secure investments in liquid or readily-realizable assets to meet cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Scheme's overall investment policy.

Section 5: Risk management

5.1 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:

- Solvency risk and mismatching risk
 - are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities under current and alternative investment policies
 - are managed through assessing the progress of the actual growth of the assets relative to liabilities under current and alternative investment policies.
- Manager risk
 - is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy
 - is managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the manager's investment process.
- Liquidity risk
 - is measured by the level of cashflow required by the Scheme over a specified period
 - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- 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 hedged efficiently.
- Custodial risk
 - is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody
 - is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.

- Political risk
 - 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 Scheme and to make good any current or future deficit
 - is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.

5.2 The Trustee continues to monitor these risks alongside the DCIO.

Signed for and on behalf of
UPS Pension Trustee Limited as Trustee of the Scheme
September 2019