The University of Warwick Pension Scheme – DB Section

Statement of Investment Principles

September 2020

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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 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 (the Agreement) with effective date of 1 April 2012) in compliance with Sections 34 and 36 of the Pensions Act. In particular, as part of the Agreement, the Trustee sets out (and updates as and when deemed appropriate) specific Investment Guidelines for the DCIO within which to operate. The DCIO considers the Agreement, Investment Guidelines and the Trustee's policies set out within this statement when carrying out its role and responsibilities, which ensures appropriate incentivisation and alignment of decision-making with the Trustee's overall objectives, strategy and policies.

2.7 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, including both capital allocation and stewardship/engagement
  - 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

2.8 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

2.9 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

2.10 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, such as common models being used for investment and funding purposes as well as ease of communication between lead advisers, both of which ultimately facilitate joined up funding and investment journey planning.

Scheme Actuary

2.11 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 + 0.25% basis (which is taken to be the same basis as that underlying the technical provisions but using a gilts + 0.25% 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 for the selection and deselection of investments, and the ongoing management of relationships with asset managers to the DCIO within Investment Guidelines set by the Trustee. The DCIO will ensure that, in aggregate, the portfolio is consistent with the policies set out in this statement and that the investment objectives and guidelines of any individual manager/mandate are also consistent with those policies relevant to the mandate in question. The Trustee considers the DCIO's performance in carrying out these responsibilities as part of its ongoing oversight of the DCIO.

4.2 The Trustee expects the DCIO to appoint investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the Trustee expects the DCIO to focus on longer-term outcomes, commensurate with the Trustee's position as a long term investor. Consistent with this view, the Trustee does not expect that the DCIO would terminate a manager's appointment based purely on short term performance but recognises that a manager may be terminated within a short timeframe due to other factors such as a significant change in business structure or the investment team. The Trustee adopts the same long term focus as part of its ongoing oversight of the DCIO.

4.3 For most of the Scheme's investments, the Trustee expects the DCIO to appoint managers with a medium to long time horizon, consistent with the Scheme. In particular areas such as equity and credit, the Trustee expects the DCIO to work with managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustee notes that the DCIO may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

4.4 The Trustee expects the DCIO to assess the alignment of the Scheme's underlying managers' approach to sustainable investment (including engagement) with its own before making an investment on the Scheme's behalf. In addition, the Trustee expects the DCIO to review the managers' approach to sustainable investment (including engagement) on a regular basis and engage with the manager to encourage further alignment as appropriate. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and the managers' engagement activities. If, following engagement, the DCIO considers that the degree of alignment remains unsatisfactory, the Trustee expects the DCIO to deselect the manager.

4.5 The Trustee expects the DCIO to consider the fee structures of asset managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the appointment of an asset manager and on an ongoing basis. Asset managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustee expects the DCIO to review and report on the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee expects the DCIO to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Responsible investing, stewardship and sustainability

4.6 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.

4.7 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.

4.8 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

4.9 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.

4.10 The Trustee seeks to apply the principles outlined above via the selection and monitoring of the DCIO (and its associated approach to ESG and broader sustainability issues, as set out 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.

4.11 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

- engages with underlying managers where appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings

- 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

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

4.13 The Trustee's policy is that there should be sufficient secure investments in liquid or readily-realisable 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.

[redacted]

25/9/20

Signed for and on behalf of
UPS Pension Trustee Limited as Trustee of the Scheme
September 2020