# The University of Warwick Pension Scheme

## Defined Contribution Section and Additional Voluntary Contribution arrangement – Statement of Investment Principles

Date signed:

# Contents

# 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;
- 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; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

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.

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 and 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 is delegated to Scottish Widows and through Scottish Widows the Trustee can access pooled funds from a range of other investment managers as well as Scottish Widow's own funds.

2.4. The DC Section's Default Option (outlined in the Appendix) is structured as a 'governed' investment solution which is designed and implemented by Scottish Widows. Scottish Widows is responsible for the selection and deselection of the underlying investment managers used through the Default Option as well as the ongoing relationships with the investment managers. The Trustee understands that Scottish Widows will appoint investment managers to be used by the Default Option with an expectation of a long-term partnership, which encourages active stewardship of the Scheme's assets.

2.5. 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 responsibility le for stock selection and the exercise of voting rights.

2.6. 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 and its ongoing management of the Default Option as well as any other investment managers utilised through the DC Section with respect to their performance against their stated objectives and benchmarks.

2.7. 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 | 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.<br><br>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. |
| 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 and asset manager arrangements

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 expects Scottish Widows to monitor and report annually on the investment managers' approach to selecting investments, voting and engaging with companies with reference to ESG issues.

9.7. The Trustee considers it to be part of the role of their investment managers to assess and monitor how the companies in which they are investing are managing developments around ESG related issues on behalf of the DC Section.

9.8. When selecting investments to be used by the Default Option, the Trustee expects Scottish Widows to appoint managers with an expectation of a long-term partnership, which encourages active ownership of the DC Section's assets. The Trustee expects Scottish Widows to actively engage with the investment managers to drive improved performance over the medium to long-term within the wider context of long-term sustainable investment. The Trustee also expects Scottish Widows to assess each investment manager's approach to sustainable investment (including engagement) prior to its inclusion within the Default Option and to monitor each manager's approach to sustainable investment (including engagement) on a regular basis.

9.9. 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. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives, they will use another investment manager for the mandate.

9.10. The Trustee carries out a strategy review at least every 3 years to assess the continuing relevance of the Default Option and self-select funds in the context of the DC Section and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to sustainable investment and ESG on an annual basis using information provided by Scottish Widows. This monitoring considers the performance of the DC Section's investment managers over medium and long-term time periods consistent with the Trustee's investment aims, beliefs and constraints.

9.11. The Trustee expects Scottish Widows to report regularly on the costs incurred in managing the DC Section's assets and this includes the costs associated with portfolio turnover. The Trustee formally reviews the reported portfolio turnover costs, at least annually, as part of the preparation of the Chair's Annual Statement.

9.12. For the open-ended pooled funds in which the DC Section invests, there are no predetermined terms of agreement with the investment managers. The suitability of the DC Section's investments and their ongoing alignment with the Trustee's investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the specific funds used, is assessed.

9.13. 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.

9.14. The DC Section's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest

# 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.

10.4. Engagement and Stewardship: the Trustee monitors the engagement and stewardship activities undertaken by the investment managers on an annual basis using information provided by the DC Section's bundled provider, Scottish Widows.

# 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.

**Signe**[redacted]..... **Date:**...25/9/20...

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

# Appendix 1 Note on investment policy in relation to the current Statement of Investment Principles dated August 2020

## 1. The balance between different kinds of investment

The Trustee's main investment objectives are:

- to provide a suitable default investment option that is likely to be suitable for a typical member of the DC Section.
- to offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different investment needs and objectives.
- seek to achieve good member outcomes net of fees and subject to acceptable levels of risk.

The Trustee is responsible for the design of the default investment option and for choosing which investment options to make available to members. Members are responsible for their own choice of investment options (including where the default investment option is selected for them because they have not selected other funds).

The Trustee has made available a range of funds to suit the individual needs of the DC Section's members. For example, a range of funds with greater equity bias is available for those members willing to accept a greater level of volatility in pursuit of higher expected retirement savings. Funds that hold greater degrees of investment in bonds or cash are offered for those members who are less comfortable with the likely volatility of the equity funds.

Alternatively, the Trustee has made available a range of lifestyle arrangements, whereby a member's assets are automatically invested in line with a pre-determined strategy that changes as the member gets closer to accessing their retirement savings. Emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term inflation-protected growth whilst the member is a long way off accessing their retirement savings, switching progressively to lower risk assets over the years preceding the member's target retirement date so as to protect the purchasing power of the retirement savings.

The lifestyle arrangements are constructed from some of the funds mentioned above that are offered to members wanting to manage their own asset allocation decisions.

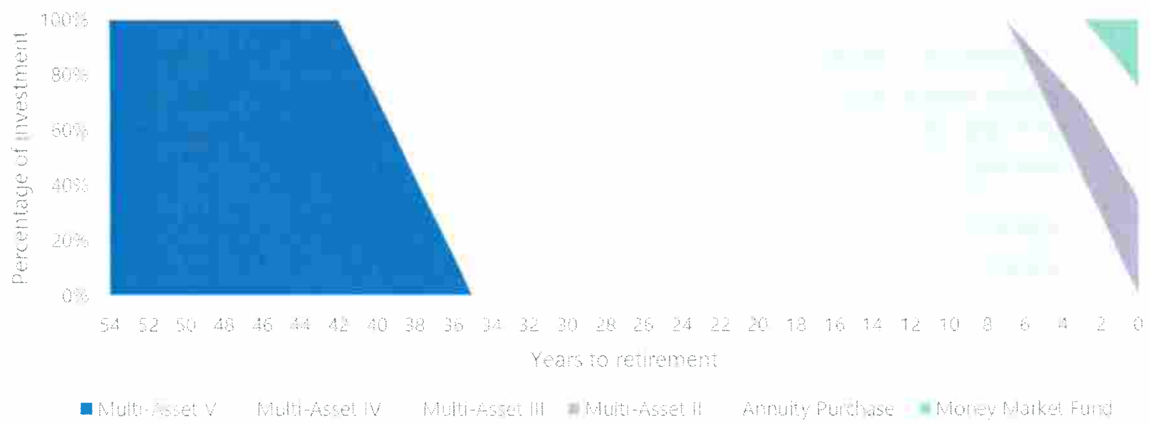
## 2. Default option

The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a single investment option that will be suitable for each individual member. However, having analysed the membership profile of the DC Section, the Trustee decided that the lifestyle arrangement set out below represents a suitable default investment option for the majority of members who do not make a choice about how their contributions (and those made on their behalf by the employer) are invested. The aims, objectives and policies relating to the default option are intended to ensure that assets are invested in the best interests of relevant members and their beneficiaries.

The default option is called the Passive Interim Lifestyle Strategy and is a governed solution which is designed and implemented by Scottish Widows. It invests in a range of risk targeted multi-asset funds depending upon how far each member is away from their Normal Retirement Age (TRA).

- When a member is more than 42 years from NRA, the Passive Interim Lifestyle Strategy will invest wholly in the Multi-Asset V Fund.
- From 42 years up to 7 years before each members NRA, the 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.
- Over the final 7 years to NRA, the 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.

This process is illustrated in the graph below:




The objective of the Passive Interim Lifestyle Strategy is 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. In the approach to NRA It is designed to limit the extent to which members' benefits are exposed to large fluctuations in value. It targets a portfolio that looks 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).

# 3. Alternative investment options

Acknowledging the challenge of identifying the best solution for different groups of members, the Trustee focuses on the default option. Alongside the default investment option, the Trustee makes available three further lifestyle investment options which have been designed to allow members to target a specific retirement income option. Like the Passive Interim Lifestyle Strategy, these form part of Scottish Widows' range of governed investment solutions so have been designed and implemented by Scottish Widows:

- Passive Flexible Retirement Lifestyle: designed for those members that intend to drawdown income in retirement.
- Passive Immediate Spend Lifestyle: designed for those members that intend to take their retirement fund as cash.
- Passive Securing Lifelong Income Lifestyle: designed for those members that intend to provide retirement income through annuity purchase.

Each of these Lifestyle options holds the same underlying investment funds as the Passive Interim Lifestyle Strategy in the early years of membership. However, in the final 7 years to NRA they are tailored to reflect the target retirement income option.

Members can also self-select individual funds to invest in. These consist of the constituent funds of the lifestyle programmes (referred to above) as well as four further funds, details of which are set out in the section below.

# 4. Choosing investments

The Trustee has appointed Scottish Widows to carry out the day-to-day investment of the DC Section. As the default option and range of lifestyle strategies are designed and implemented by Scottish Widows, Scottish Widows is responsible for selecting the underlying fund managers. The Trustee selects the fund managers for all other funds offered through the DC Section.

The investment managers to the DC Section are currently BlackRock and Columbia Threadneedle, both of which are authorised and regulated by the Financial Conduct Authority.

The investment benchmarks and objectives for each fund are given below:

| Investment manager | Fund | Benchmark | Objective |
|---|---|---|---|
| BlackRock | SW Multi-Asset V | SW Passive Multi Asset V Composite Benchmark | Provide capital growth over the long term |
| | SW Multi-Asset IV | SW Passive Multi Asset IV Composite Benchmark | Provide capital growth over the long term |
| | SW Multi-Asset III | SW Passive Multi Asset III Composite Benchmark | Provide capital growth over the long term |

| Investment manager | Fund | Benchmark | Objective |
|---|---|---|---|
| | SW Multi-Asset II | SW Passive Multi Asset II Composite Benchmark | Provide capital growth over the long term |
| | SW Multi-Asset I | SW Passive Multi Asset II Composite Benchmark | Provide capital growth over the long term |
| | SW Passive Annuity Purchase | 50% iBoxx Sterling Non-Gilts Index<br>50% FTSE UK Gilts Over 15 Years Index | Reflect to some degree the changes in the cost of purchasing a level annuity |
| | UPS Balanced Growth | 60% FTSE All-World Developed Ex-UK Index<br>25% iBoxx Sterling Non-Gilts Over 15 Years Index<br>15% FTSE All-Share Index | To provide a moderate to higher return over the longer-term |
| | UPS Equity Growth | 80% FTSE All-World Developed ex-UK Index<br>20% FTSE All-Share Index | To provide a higher return over the longer-term (compared to the other UPS funds available |
| | UPS Pre-Retirement | 67% iBoxx Sterling Non-Gilts Over 15 Years Index<br>33% FTSE UK Gilts Over 15 Years Index | To provide returns linked to the bond markets that reflect, to some extent, movements in the price of buying an annuity |
| | UPS Money Market | 7 Day Sterling LIBID | To provide a greater degree of capital stability than other assets |
| Columbia Threadneedle | SW Money Market | N/A | To provide stability of capital and a modest level of return |

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

## 5. Fee agreements

The annual fee arrangements with the investment managers are summarised below:

| Investment option/fund | Fund management charge | Annual management charge | Total expense ratio |
|---|---|---|---|
| Passive Multi- Asset V | 0.410% | 0.093% | 0.503% |
| Passive Multi- Asset IV | 0.410% | 0.094% | 0.504% |
| Passive Multi- Asset III | 0.420% | 0.097% | 0.517% |
| Passive Multi- Asset II | 0.420% | 0.094% | 0.514% |
| Passive Multi- Asset I | 0.410% | 0.093% | 0.503% |
| Passive Annuity Purchase CS1 | 0.410% | 0.085% | 0.495% |
| Money Market CS1 | 0.440% | 0.156% | 0.596% |
| UPS Balanced Growth | 0.410% | 0.086% | 0.496% |
| UPS Equity Growth | 0.410% | 0.084% | 0.494% |
| UPS Money Market | 0.360% | 0.140% | 0.500% |
| UPS Pre-Retirement | 0.410% | 0.087% | 0.497% |

The Trustee reviews these charges periodically as part of the Value for Member assessments.

## 6. Additional Voluntary Contributions (AVCs) for the Defined Benefit (DB) Section

The Trustee offers members of the DB Section the ability to accrue additional retirement payments through an AVC policy. This AVC policy is managed by Prudential and all AVC benefits are invested in the Prudential With Profits Fund.

A With Profits Fund is a pooled investment vehicle, which combines the assets of all investors to provide exposure to a range of asset classes. The fund is managed in line with its published Principles and Practices of Financial Management (PPFM) however the provider does have some discretion over how this is achieved.

The value of a With Profit fund is not directly linked to the value of the underlying assets. Instead, returns over the period are smoothed by retaining some profits in periods of higher growth and paying out more during periods of lower profits. This smoothing is achieved through a combination of regular bonuses and final bonuses.

Regular bonuses are paid annually and represent the amount that the with profit fund manager believes appropriate to be passed on to members. There is usually no guarantee that regular bonuses will paid. Once paid however, they cannot be taken away providing the member keeps their investment in the policy until retirement or death.

Final bonuses (also known as terminal bonuses) may be added when benefits are paid. These are not guaranteed and will depend on a variety of factors including the fund performance over the period, bonuses already paid, expenses etc.