The University of Warwick Pension Scheme – DB Section

Annual Implementation Statement (forming part of the Trustee’s report) – Scheme Year ending 31 March 2024

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1: Introduction and summary

This document is the Defined Benefit ("DB") Annual Implementation Statement ("the Statement"), prepared by the Trustee of The University of Warwick Pension Scheme (the "Scheme"), corresponding to the Scheme's DB Statement of Investment Principles ("SIP"), and covering the year from 1 April 2023 to 31 March 2024 ("the Scheme Year").

The purpose of this Statement is to:

- Detail any reviews of the SIP the Trustee undertook over the Scheme Year, including the reasons for any changes made to the SIP over the year – see Section 2.

- Set out the extent to which, in the opinion of the Trustee, the Scheme's SIP required under section 35 of the Pensions Act 1995 was followed during the Scheme Year – see Section 3. In summary, the Trustee considers that all the SIP policies and principles were adhered to during the year.

- Describe the voting and engagement behaviour by, or on behalf of, the Trustee over the Scheme Year – see Section 4.

A copy of this Statement will be made available on the following website:
https://warwick.ac.uk/services/humanresources/internal/rewardandbenefits/corebenefits/pensions/ups

The Scheme makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact. The Trustee confirms that the investments which the Scheme holds were chosen in line with the requirements of section 36 of the Pensions Act 1995.

To ensure that investment policies set out in the SIP are taken by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some responsibilities to the Investment Sub Committee ("ISC") and the Delegated Chief Investment Officer ("DCIO"). These responsibilities are set out in more detail in the SIP, but are mainly:

- **ISC**: Assisting the Trustee in developing an appropriate overall investment strategy (return target and risk budget) and the ongoing monitoring of the investment strategy and the activity and performance of the DCIO.

- **DCIO:** The Trustee has appointed a DCIO, Towers Watson Limited, to manage the Scheme's assets. The Trustee has set the DCIO specific objectives and parameters within a bespoke Fiduciary Management Agreement, including the Scheme's investment objectives and asset allocation limits. The Trustee believes in diversification and the Scheme's portfolio is built using a diverse range of return-seeking and cashflow matching assets, as well as a dedicated allocation to liability driven investments which seek to match the sensitivity of the Scheme's liabilities to inflation and interest rates. The DCIO is responsible for implementing the Trustee's agreed investment strategy, determining the asset allocation, selecting and de-selecting investment managers and reflecting Sustainable Investment ("SI") considerations throughout the investment process. The DCIO considers the policies and principles set out in the Trustee's SIP in addition to the specific Fiduciary Management investment guidelines set by the Trustee.

The Trustee considers that all SIP policies and principles were adhered to during the year.

2: SIP reviews/changes over the year

The version of the SIP in place at the start of the Scheme Year was dated April 2022. The SIP was reviewed and updated once in the year, dated November 2023.

The key changes in the update of 2023 were:

- Additional policies relating to the monitoring of investment return and the liability profile in the context of the investment strategy and objectives.
- A clarification on the role of the DCIO in monitoring the underlying investment managers.
- Refinements to the sustainability policy by specifying that the time horizon over which financially material factors are being considered is long-term (taking into consideration the scheme's long-term funding target). The Trustee also set out its stewardship priorities and policy around engagement and voting.

Updates to the risk management section to reflect the latest risks facing the Scheme.

For the purpose of assessing how the Scheme's SIP has been followed, the remainder of this statement specifically focusses on the SIP agreed in November 2023. All elements that were included in the previously agreed SIP (dated April 2022) remained in the November 2023 SIP.

3: Adherence to the SIP

Below sets out the actions the Trustee has taken over the Scheme Year to adhere to the policies in the SIP and the ongoing monitoring of the policies as they are set out in the SIP.

Section 1: Introduction

This section provides the relevant introductory and background comments rather than setting out any policies.

Section 2: Division of responsibilities

This section primarily sets out the investment governance structure and responsibilities of the key parties in relation to the investment strategy and ongoing management of the Scheme's investments. Over the Scheme Year the Trustee:

- Held 2 ISC meetings - the topics covered include:
  - An investment strategy review following the conclusion of the 31 March 2022 actuarial valuation
  - The consideration of return seeking portfolio implementation options following confirmation of the investment strategy review
  - A report considering the various risks and vulnerabilities remaining in the LDI market
  - Initial investment strategy considerations in light of the surplus sharing reforms
  - WTW's Global Investment Outlook
  - An in-depth sustainable investment review
  - Cost and charges reporting
  - Portfolio turnover reporting

- Held 4 Trustee meetings and received updates from the DCIO and Scheme Actuary on the investment performance, progression of the Scheme's funding position and the outcomes from the ISC meetings.

- Received training on the following topics:
  - LDI collateral management and new regulatory regime
  - The new Defined Benefit (DB) funding regulations and associated Code of Practice
  - Emerging trends for DB Pension Schemes
  - The Pensions Regulator's annual DB funding statement
  - Scheme governance and the new General Code of Practice.
  - DB Member options, including Bridging Pension options
  - Other topical items affecting pension schemes

- Evaluated the performance of the DCIO against the objectives set and its broader performance as DCIO and concluded that it had met all of the objectives and had performed to a satisfactory standard.

The DCIO monitored the Scheme's underlying investment managers and Global Custodian and Performance Measurer on an ongoing basis.

Section 3: Long-term objectives and investment strategy

- The Trustee has received advice on an investment strategy aimed at maximising the chances of achieving its objectives. The investment strategy was last formally reviewed in 2023, following the 2022 triennial actuarial valuation, and is next due to be reviewed in 2026 or sooner.

- The strategy review, undertaken in August 2023 by the ISC following the conclusion of the 2022 actuarial valuation, re-affirmed the Trustee's long-term objective of reaching 100% funding on the Long-Term Funding Target ("LTFT") on the Gilts+0.25% p.a. liability basis by 2029. This would be achieved by continuing to target a Gilts+1.3% p.a. return until 2029.

- The Trustee also agreed to an updated dynamic risk management framework which sets funding level triggers around the Central Journey Plan to either consider further de-risking if significantly ahead of the Central Journey Plan, or a review of the investment strategy if materially behind the Central Journey Plan. The Trustee noted that in the event of the Scheme being materially ahead of the Central Journey Plan, regard should be had to the likely minimum level of target return it wishes to retain in the long-term above the LTFT discount rate (gilts + 0.25%) to ensure any further de-risking activity is not inconsistent with a longer-term target return.

- The Trustee also evaluated the return-seeking portfolio approach and decided to evolve it towards a pooled core diversified implementation approach in order to benefit from increased efficiency, greater portfolio diversification and use of selective active management.

- On a quarterly basis, the Trustee reviewed the Scheme's portfolio and performance of the DCIO via quarterly investment reports and updates from the DCIO covering:
  - Commentary on performance and portfolio changes
  - Performance of the underlying assets
  - Funding position of the Scheme
  - Risk and return statistics of the portfolio
  - Asset allocation
  - The DCIO's adherence to the investment guidelines set by the Trustee (No breaches were reported during the year).

- In order to ensure appropriate incentivisation and alignment of decision-making between the Trustee and the DCIO, the DCIO is subject to a number of obligations set out in its contractual arrangements with the Trustee and the DCIO is aware of and gives effect to the principles set out in the Trustee's SIP. The DCIO acted in accordance with these obligations throughout the year.

- The Trustee's investment strategy seeks to outperform a benchmark based on a projection of the Scheme's liability cashflows. The liability benchmark is updated following each actuarial valuation, and when there is any significant change to the structure of the Scheme's liabilities. The benchmark was last updated in 2023 following the actuarial valuation in 2022.

- The DCIO monitored and reported on the Scheme's investments and managers on a regular basis to ensure that the investment strategy remained consistent with the Scheme's objectives.

- The DCIO monitored and reported on manager performance relative to an appropriate market benchmark where one was available or an appropriate return objective where a market benchmark was not available. In addition, the DCIO assessed the performance of the Scheme's investment managers relative to peers and in the context of the prevailing market environment.

- On a daily basis, using its proprietary software, Asset Liability Suite, the DCIO tracked an estimate of the Scheme's funding level relative to the Journey Plan and upside and downside triggers as set out in the dynamic risk management framework.

- The Trustee believes in diversification and the Scheme's portfolio is built using a diverse range of return-seeking and cashflow matching assets, as well as a dedicated allocation to liability driven investments which seek to match the sensitivity of the Scheme's liabilities to inflation and interest rates, in line with the policies set out in the SIP.

- The DCIO acted within guidelines set by the Trustee including asset allocation, manager and geographical diversification, and foreign currency exposure. The DCIO is required to report any breach of these guidelines to the Trustee.

- The Trustee updated the investment guidelines in place for the DCIO in order to reflect the agreed changes to the return-seeking portfolio approach, as well updated portfolio liquidity limits to better align to the updated liquidity demands following the 2022 UK gilt market volatility.

- The Trustee considers that the balance of investments held and the approach to managing risk is in the best interests of members in order to mitigate downside risk to the funding position of the Scheme whilst helping the Scheme to achieve its ultimate objective over an appropriate time horizon.

Section 4: Other investment policies

As set out above, the Trustee has delegated responsibility to the DCIO (within agreed investment guidelines and in accordance with the Trustee's SIP) to implement the Trustee's agreed investment strategy, including making certain decisions about investments in compliance with Sections 34 and 36 of the Pensions Act 1995. As such the DCIO is also responsible for:

- Choosing investments – including the selection and deselection of investments, and the ongoing management of relationships with asset managers.

- Sustainable and responsible investment – i.e. how Environmental, Social and Governance ("ESG") factors are allowed for in the portfolio in terms of both capital allocation and stewardship.

- Managing portfolio liquidity relative to the Scheme's requirements.

Choosing investments

- The DCIO considered past performance as one of several inputs into the assessment of investment managers, which relies predominantly on research views based on a range of qualitative and quantitative factors, including the consideration of SI/ESG factors as outlined below. Whilst there were some changes to the underlying investment managers, no managers were terminated based on short term performance alone.

- Consistent with the Scheme's long investment time horizon, the Trustee seeks to be a long-term investor and the DCIO has appointed managers (in the majority of cases) with the expectation of a long-term relationship. This in turn allows investment managers to take a longer-term approach to investing, including engagement with issuers of debt and equity, with a view to improving investment outcomes over the long term. As at the end of the Scheme year, the Scheme was invested in 10 investment funds and the average tenure of the Trustee's investments in these funds was 6 years (noting that the actual tenure of the underlying investments will be longer due to a number of the investments held in the return-seeking portfolio are also being held within the pooled return-seeking vehicle the Scheme now invests in).

- The Trustee received quarterly monitoring reports from the DCIO. The performance shown in these reports is based on performance reporting provided by the Scheme's Independent Performance Measurer, State Street. These reports are included for scrutiny and discussion at the Trustee's quarterly meetings. The reports include details of short-, medium- and longer-term performance relative to benchmarks/targets for all funds as well as commentary on an exceptions basis regarding performance with significant deviation from benchmark/target. Throughout the year, the Trustee used these reports as an input into its ongoing assessment of the DCIO's performance. Similar to the approach taken with the Scheme's underlying investment managers, the Trustee appointed the DCIO with the expectation of a long-term relationship and therefore takes a long-term approach to its assessment of the DCIO's performance. The DCIO was appointed 12 years ago.

- As part of its manager selection and ongoing oversight processes, the DCIO considers the level of fees and the type of fee structures used by each manager (including a consideration of the alignment of interests created by certain fee structures). The DCIO considers a number of factors including the asset class / investment strategy, the way in which the strategy is implemented (e.g. active management or passive benchmark tracking), and fee benchmarking relative to peers. The majority of the Scheme's investment managers were 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 exceptions to this were in Secure Income Assets (SIAs), where some of the underlying managers' remuneration was partly based on performance over an appropriate time horizon. The use of performance fees for these types of investments (where manager skill is a key driver of expected returns) is quite common. The Trustee and DCIO recognise the incentives created by such fee structures and are comfortable with them given the highly active nature of these individual strategies, and in the context of the Scheme's wider investment portfolio where the aggregate use of these fee structures is limited.

- During the Scheme Year, the DCIO reviewed and reported to the Trustee on the total fees and costs incurred by the Scheme through its investments. As part of its review and reporting on the Scheme's costs, the DCIO also reported to the Trustee on the costs associated with portfolio turnover, including a consideration of whether experienced turnover within investment strategies was consistent with the individual manager's expectations and within the DCIO's expectations given its knowledge and understanding of the asset class and peers. The Trustee and DCIO were comfortable that portfolio costs and level of portfolio turnover were consistent with expectations relative to the underlying investments.

- The DCIO is also responsible for managing the sustainability of the portfolio and how ESG factors are allowed for in the portfolio. The Trustee's view is that ESG factors can have a significant impact on investment returns, particularly over the long-term. As a result, the Trustee believes that the incorporation of ESG factors is in the best long-term financial interests of its members. The Trustee has appointed the DCIO who shares this view and has fully embedded the consideration of ESG factors in its processes. The Trustee incorporates an assessment of the DCIO's performance in this area as part of its overall assessment of the DCIO's performance.

- The DCIO's process for selecting, monitoring and de-selecting managers explicitly and formally includes an assessment of a manager's approach to SI (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). Where ESG factors are considered to be particularly influential to outcomes, the DCIO engages with investment managers to improve their processes. Some examples of the impact these policies have had on the portfolio are disclosed in the next section.

Responsible investing, stewardship and sustainability

- In March 2024, the ISC carried out a detailed review of the DCIO's approach to ESG issues and how these are being incorporated by the DCIO into the portfolio. The review included:
  - Overview of the DCIO's stewardship activities.
  - An assessment of the underlying investment managers and how sustainability and ESG factors are applied in the process of the managing of the assets. All bar one of the Scheme's applicable mandates were rated either positive or neutral by the DCIO on ESG and stewardship metrics. One small underlying mandate was rated weak, however the Trustee was comfortable with the rationale for this.
  - An overview of the Scheme's portfolio holdings applying an ESG lens, including:
    - How ESG considerations are explicitly integrated across the Scheme's investments, including the importance of stewardship within the Scheme's equity layer (through the EOS at Federated Hermes ("EOS") stewardship overlay) and how recent stewardship activity aligns with the identified Trustee stewardship priority areas.
    - A snapshot of the portfolio's SI credentials and exposures, including climate related exposures in line with the recommendations of the Taskforce for Climate-related Financial Disclosures.
  - An introduction to biodiversity as an increasing area of focus in SI.

- The ISC confirmed it was satisfied with the approach being taken by the DCIO on ESG and so was aligned with the Trustee's policies.

- Over the Scheme Year the Trustee did not make any investment decisions based on non-financial matters.

- The Trustee expects that the annual communication to members regarding ESG and stewardship will be addressed in the annual implementation statement. This document is a statutory report and will be produced and published on an annual basis alongside the Scheme's Annual Reports and Accounts.

Liquidity and realisation of investments

- As part of the investment guidelines, the Trustee has also set liquidity limits that the DCIO must adhere to. The Trustee has a policy to ensure that the Scheme's cashflow requirements can be readily met without disrupting its investment strategy.

- Throughout the Scheme Year, the DCIO regularly monitored the level of cash in the Scheme, and cashflows into/out of the Scheme to ensure that there were sufficient assets in readily realisable investments to meet the Scheme's requirements without disrupting its investment strategy.

- The Trustee monitored the liquidity of the Scheme's portfolio and cashflows into and out of the Scheme on a quarterly basis.

- The DCIO can make adjustments to the Scheme's allocation to cash when necessary within guidelines set by the Trustee.

Section 5: Risk management

Rather than setting out any policies, this section provides an overview of the broad range of risks recognised by the Trustee, risks which could ultimately lead to the Scheme accumulating insufficient assets to finance members benefits.

The Trustee has put in place an Integrated Risk Management Framework which seeks to identify, manage and monitor risks which could negatively impact the Scheme's ability to meet its funding objectives. This framework incorporates funding, covenant and investment factors and is ultimately used to help inform the Scheme's investment strategy. In relation to investment factors, the Trustee has identified a number of risks which it seeks to manage and monitor, in conjunction with the DCIO. Solvency and mismatch risk, investment manager risk, liquidity risk, and interest rate and inflation risks have been discussed above in the relevant sections on investment strategy and investment managers. The DCIO reported to the Trustee on each of these risks in meeting papers which were discussed at the Trustee's quarterly meetings. The Trustee also received an integrated investment and actuarial funding update on a quarterly basis at the Trustee meetings.

In addition to these risks, the Trustee also seeks to measure and manage:

Currency risk: This was managed through the use of currency hedged share classes for relevant foreign currency denominated investments by the DCIO, managing the overall foreign currency exposure in line with the investment guidelines set by the Trustee. Throughout the year, the DCIO left a small proportion of the Scheme's foreign currency exposure unhedged for reasons of diversification and return generation. The DCIO monitored the Scheme's unhedged exposures on a regular basis and reported this to the Trustee as part of its quarterly meeting papers.

Custodial risk: Risk of the custodian becoming insolvent was addressed by investing in a diversified range of reputable pooled funds which have been researched from an Operational Due Diligence perspective and where the Scheme's assets are held by separate custodians appointed by the managers. In addition, any uninvested cash was swept into a pooled cash fund by the DCIO which is managed by a pooled fund manager who, in line with the Scheme's other pooled fund managers, is responsible for selecting the custodian for the cash funds. In addition, the DCIO's specialist research team reviews the custodian on a regular basis.

Political risk: Risk arising from political regimes and actions, particularly in less established/ more opaque markets, was managed throughout the year by maintaining a well-diversified portfolio by geography and managed within geographical constraints specified in the investment guidelines. The DCIO considers political risk when determining whether to allocate capital to an investment and also in determining the relative sizing of an investment.

Sponsor risk: The Trustee received regular updates from the Sponsor to assess the level of ability and willingness of the Sponsor to support the continuation of contributions to the Scheme.

4: Voting and engagement

The Trustee has delegated the day to day ESG integration and stewardship activities (including voting and engagement) to its investment managers. The Trustee has not set any specific guidelines around manager voting.

Through the engagement undertaken by the DCIO, the Trustee expects investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital as applicable to their mandates. The DCIO considers the investment managers' policies and activities in relation to ESG and stewardship both at the appointment of a new manager and on an ongoing basis. The DCIO engages with managers to improve their practices and may terminate a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the Year.

The Scheme is invested across a diverse range of asset classes which carry different ownership rights, for example fixed income whereby these holdings do not have voting rights attached. Therefore, voting information was requested from the Scheme's diversified growth fund – the Towers Watson Investment Management ("TWIM") Core Diversified Fund, which has underlying equity and listed real assets managers, (as here there is a right to vote as an ultimate owner of a stock).

Following the transition to the Core Diversified approach for the return-seeking portfolio from November 2023, the Scheme's equity holdings are now invested across one pooled fund:

- TWIM Core Diversified Fund – a multi-asset fund which invests in a number of underlying managers across equities, real assets, credit and liquid alternatives.

TWIM Core Diversified Fund

As TWIM manages a fund of funds, the voting rights for the holdings are the responsibility of the underlying managers. TWIM expects all of the underlying managers who hold equities over a reasonable timeframe to vote all of the shares held. TWIM has appointed EOS to provide voting recommendations to enhance engagement and achieve responsible ownership. The underlying managers must provide an explanation and note their rationale when they choose to vote differently to the recommendations from EOS. The underlying mangers also use ISS to facilitate voting and provide research. The China equity manager uses the Glass Lewis service where they have created a bespoke policy.

EOS also carries out public policy engagement and advocacy on behalf of all of WTW's fiduciary clients. In addition, EOS is expanding the remit of engagement activity they perform beyond public equity markets, which will enhance stewardship practices over time.

Manager voting data.

The Trustee understands the importance of carrying out periodic reviews of the voting information and engagement policies of its investment managers to ensure they align with its own policies and principles. The table below provides a summary of the voting activity for the Scheme's relevant holdings over the year.

The Trustee delegates the exercise of voting rights to its investment managers. Voting activity is undertaken in line with the voting policy of the investment manager which is as noted above for the Scheme's diversified growth fund. The DCIO has assessed the investment manager's voting policy as part of its overall assessment of the investment manager's capabilities. The DCIO considered the policy to be appropriate, and consistent with the Trustee's policies and objectives and ultimately therefore in the best financial interests of the members. Additional oversight on the implementation of this policy is provided through the DCIO's partnership with EOS (see below).

The Trustee has identified key ESG risks for the Scheme as climate change action and human and labour rights and therefore selected votes on these topics as the most significant for the Scheme.

TWIM Core Diversified Fund:

Voting activity	Number of votes eligible to cast:	41,990
	Percentage of eligible votes cast:	95.7%
	Percentage of votes with management:	85.7%
	Percentage of votes against management:	14.2%
	Percentage of votes abstained from:	0.1%
Significant Vote 1:	**Company**	Alphabet
	Size of holdings	1.13%
	Resolution	Report on Risks of Doing Business in Countries with Significant Human Rights Concerns
	Vote Cast	For (against management)
	Rationale for voting decision	The proposal was regarding greater transparency related to business conducted in places with significant human rights concerns. The siting of cloud data centers and strategy for mitigating related country risk seems like appropriate and material topics for disclosure.
	Outcome of vote	Not approved. The manager will vote for similar measures in the future.
Significant Vote 2:	**Company**	Berkshire Hathaway Inc.
	Size of holdings	0.3%

	Resolution	Report If and How Company will Measure, Disclose and Reduce Green House Gas Emissions
	Vote Cast	For
	Rationale for voting decision	Shareholder proposal promotes better management of ESG opportunities and risks
	Outcome of vote	Not approved
Significant Vote 3:	**Company**	Amazon
	Size of holdings	0.6%
	Resolution	Commission a Third Party Audit on Working Conditions
	Vote Cast	For
	Rationale for voting decision	Promotes transparency on warehouse working conditions
	Outcome of vote	Not approved

Industry wide / public policy engagement

As mentioned, the DCIO has partnered with EOS for a number of years to enhance its stewardship activities. One element of this partnership is undertaking public policy engagement on behalf of its clients (including the Trustee). This public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change.

The DCIO represents client policies/sentiment to EOS via the Client Advisory Council, of which its Head of Stewardship currently chairs. It applies EOS' services, from public policy engagement to corporate voting and engagement, to several of its funds. Some highlights from EOS' activities over 2023:

- Engagements with 1,041 companies on a total of 4,272 issues and objectives.
- 31 responses to consultations or proactive equivalents and 90 discussions with relevant regulators and stakeholders.
- Voting recommendations on 128,101 resolutions, with 22,716 against management.
- Active participation in a range of global stewardship initiatives.

The DCIO also engaged in a number of industry wide initiatives and collaborative engagements including:

- Becoming a signatory to the 2020 UK Stewardship Code in the first wave, and subsequently retaining that status
- Co-founding the Net Zero Investment Consultants Initiative in 2021, with a commitment across its global Investment business
- Joining the Net Zero Asset Managers Initiative in 2021, committing 100% of its discretionary assets
- Being a signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee
- Being a member of and contributor to the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC)
- Co-founding the Investment Consultants Sustainability Working Group
- Continuing to lead collaboration through the Thinking Ahead Institute and WTW Research Network
- Being a founding member of The Diversity Project
- Being an official supporter of the Transition Pathway Initiative