

# University of Leicester Pension and Assurance Scheme

## Statement of Investment Principles

Date prepared: September 2021

Date signed: 28 September 2021

## Contents

|  |  |    |
|--|--|----|
| 1.   | Introduction .....   | 3  |
| 2.   | Choosing investments .....   | 3  |
| 3.   | Investment objectives .....  | 4  |
| 4.   | Kinds of investments to be held .....  | 4  |
| 5.   | The balance between different kinds of investments.....  | 5  |
| 6.   | Risks .....  | 5  |
| 7.   | Expected return on investments .....   | 6  |
| 8.   | Realisation of investments .....   | 6  |
| 9.   | ESG considerations, non-financial matters, the exercise of voting rights and engagement activities | 7  |
| 10   | Agreement .....  | 7  |
| Appendix 1: The Scheme’s policies on Environmental, Social and Governance (“ESG”) considerations, Stewardship and investment manager arrangements..... |  | 8  |
| 1  | Policy on ESG considerations.....  | 8  |
| 2  | Policy on stewardship .....  | 9  |
| 3  | Asset manager arrangements .....   | 10 |

## 1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustees of the University of Leicester Pension and Assurance Scheme (the Scheme). This statement sets down the principles which govern the decisions about 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, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and incorporates 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 Trustees have consulted The University of Leicester, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' 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), and Scheme Funding legislation.
- 1.4. The Trustees 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.
- 1.5. The Trustees' investment powers are set out in Clause 20 of the Definitive Trust Deed & Rules, dated 30 January 1998. This statement is consistent with those powers.

## 2. Choosing investments

- 2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme'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.
- 2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the Principal Employer before amending the investment strategy.

### 3. Investment objectives

3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to take account of the long-term risks, including those relating to non-financial factors, when making investment decisions;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2. The Technical Provisions as per the 31 July 2019 Actuarial Valuation assume that assets held to back liabilities outperform the yield available on UK gilts (of a suitable term) by 1.9% per annum over the five year period to 31 July 2024, reducing linearly to 0.5% per annum over the next ten years, after which it will remain at 0.5% per annum.

Additional allowance for outperformance is made within the Recovery Plan that lasts until 28 February 2030 and this reflects the Scheme's current investment strategy. Under the Recovery Plan, it is assumed that the Scheme's assets outperform the yield available on UK gilts (of a suitable term) by:

- 3.0% p.a. for the first five years;
- Reducing linearly to 0.75% p.a. over the next 10 years; and
- 0.75% p.a. thereafter.

3.3. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

### 4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt, loans and derivatives;
- Target return / diversified growth funds;
- Pooled liability driven investment funds that make use of instruments such as gilt repurchase agreements and swap contracts;
- Annuity policies.

4.2. Given the nature of the Principal Employer the Trustees do not expect that there will be any employer-related investment content in their portfolio. However, this will be reviewed from time to time.

## 5. The balance between different kinds of investments

- 5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained in the Scheme's Statement of Investment Strategy.
- 5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.
- 5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

## 6. Risks

- 6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

|                                    |  |
|------------------------------------|--|
| <b>Risk versus the liabilities</b> | The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each Actuarial Valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.   |
| <b>Asset allocation risk</b>       | The asset allocation is detailed in the Scheme's Statement of Investment Strategy and is monitored on a regular basis by the Trustees.   |
| <b>Investment manager risk</b>     | The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate. |
| <b>Concentration risk</b>          | Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.   |
| <b>Loss of investment</b>          | The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. Each manager monitors counterparty credit risk and evaluates counterparty credit quality on a continuous basis.   |
| <b>Liquidity risk</b>              | The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.                                    |
| <b>Covenant risk</b>               | The creditworthiness of the Principal Employer and the size of the pension liability relative to the Principal Employer's earnings are monitored on a regular basis. The   |

|   |  |
|---|--|
|   | appropriate level of investment risk is considered with reference to the strength of the employer covenant.  |
| <b>Solvency and mismatching</b>   | This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis. |
| <b>Currency risk</b>  | The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.  |
| <b>Governance risk</b>  | Each investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.  |
| <b>Environmental, Social and Governance ("ESG") risk and climate risk</b> | The Trustees consider ESG factors and climate risk to be financially material. Going forward, the Trustees will assess these risks alongside other financially material risks when selecting or reviewing the Scheme's investments.  |

## 7. Expected return on investments

- 7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.
- 7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's investment managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

## 8. Realisation of investments

- 8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.
- 8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

## 9. ESG considerations, non-financial matters, the exercise of voting rights and engagement activities

### Policy on ESG considerations

9.1 The Trustees' policy on ESG is set out in Appendix 1 for ease of disclosure.

### Policy on stewardship

9.2 The Trustees' policy on stewardship is set out in Appendix 1 for ease of disclosure.

### Policy for taking into account non-financial matters

9.3 The Trustees believe their duty is to act in the best financial interests of the Scheme's beneficiaries, and in the majority of the Scheme's investments the Trustees have not made any specific provision for non-financial considerations to be taken into account. However, this is something that the Trustees continue to review and some elements of the portfolio do have restrictions on investments into tobacco and armaments.

## 10 Agreement

10.1 This statement was agreed by the Trustees and replaces any previous statements. Copies of this statement and any subsequent amendments will be published on a publicly accessible website and thereby be available to the Principal Employer, the investment managers, the Scheme Auditor and Scheme members.

**Signed on behalf of the Trustees of the University of Leicester Pension and Assurance Scheme on  
28 September 2021**

# Appendix 1: The Scheme's policies on Environmental, Social and Governance ("ESG") considerations, Stewardship and investment manager arrangements

This note relates to the Statement of Investment Principles of the University of Leicester Pension and Assurance Scheme (the "Scheme") as at September 2021.

## 1 Policy on ESG considerations

The Trustees' current policy on ESG factors and climate risk is as follows:

- The Trustees consider ESG factors and climate risk to be financially material long-term risks to the Scheme. As such, the Trustees are continually developing their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
- Given the maturity profile of the Scheme and the objective to fund future member benefits from the Scheme's assets as they fall due, the Trustees have a long-term time horizon over which they take into account the financial materiality of ESG factors (including climate change).
- The Trustees consider ESG factors more pertinent for some areas of investment rather than others. For example, the Trustees believe there is less scope for ESG issues to have a major impact within the Scheme's Liability Driven Investments than within the Scheme's equity portfolio.
- When reviewing existing investments and selecting new investments, an investment manager's excellence in relation to ESG and climate risk considerations will be considered but will not take precedence over other financially material considerations, including (but not limited to) historical performance or fees.
- From time to time, the Trustees may ask the Scheme's investment managers to attend meetings and provide updates on the funds, which the Trustees expect to include an update on ESG and climate risk considerations. The Trustees recognise that they will be reliant on the information presented by the investment managers and their investment advisors regarding the extent to which an investment manager allows for ESG and climate risk in making their investment decisions.
- The Trustees will engage with investment managers regarding issues believed to have a material impact (both positive and negative) on future returns.

In order to establish and maintain an investment portfolio that incorporates ESG, the Trustees will:

1. Continue to receive training to understand the key issues around ESG factors and latest developments;
2. Receive an ESG dashboard for each manager on an annual basis, which summarises the key metrics around how ESG is incorporated for each investment mandate;
3. Assess, as part of their regular review of managers, the managers' approaches to ESG issues within each mandate; and
4. Consider a manager's approach to ESG as part of any new manager selection exercises.



## 2 Policy on stewardship

The Trustees believe that good stewardship and positive engagement can lead to improved governance and may lead to better risk-adjusted investor returns.

As an investor in pooled funds, the Trustees delegate the exercising of the rights (including voting rights) attaching to the Scheme's investments to the investment managers, who are signatories to the UK Stewardship Code or equivalent. The Trustees expect the investment managers to take account of ESG factors and climate risk when exercising these rights and will monitor this through the annual Implementation Statement.

The Trustees also delegate the undertaking of engagement activities to the investment managers, which includes entering into discussions with company management in an attempt to influence behaviour. As part of this, the Trustees expect their active investment managers to assess and monitor developments in the capital structure for each of the companies in which the manager invests. This should include monitoring developments in ESG-related issues, and in particular climate risk, across the relevant parts of the capital structure. The Trustees recognise that monitoring the capital structure of the assets held is less relevant for passive investment managers. However, the Trustees will also monitor developments in ESG, climate risk and related issues for their passive investment manager(s). This expectation has been communicated to the Scheme's investment managers.

In selecting and reviewing their investment managers, where appropriate and applicable, the Trustees will consider the investment managers' policies on engagement and ESG and how those policies have been implemented. If the Trustees find that any investment manager is not engaging with the companies in which the manager invests in a suitable manner or is not taking sufficient account of ESG matters in its exercising of voting rights, it will engage with that investment manager with the help of the Scheme's Investment Consultants.

The Scheme'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 Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have appropriately managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the companies in which the manager invests.

### 3 Asset manager arrangements

The Trustees have appointed the following investment fund managers to carry out the day-to-day investment of the Scheme's assets:

- Legal & General Investment Management ("L&G");
- Ruffer LLP ("Ruffer");
- Aviva Investors ("Aviva");
- BMO Global Asset Management ("BMO")
- M&G Investments ("M&G");
- Columbia Threadneedle Investments ("Threadneedle").
- Northern Trust Asset Management ("Northern Trust")

The Trustees also have an AVC contract with Prudential for the receipt of members' Additional Voluntary Contributions. The arrangement is reviewed from time to time.

The investment managers are authorised and regulated by the Financial Conduct Authority and are all signatories to the UN Principles of Responsible Investment (UN PRI).

## Investment benchmarks and objectives

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

| Fund   | Benchmark  | Objectives  |
|--|--|---|
| L&G UK Equity  | FTSE All-Share Index   | Track the benchmark within 0.25% in two years out of three (gross of fees)                                      |
| Northern Trust World Green Transition Index Fund*            | MSCI World Custom ESG Climate Series A Index                 | To closely match the risk and return characteristics of the benchmark   |
| Northern Trust Emerging Markets Green Transition Index Fund* | MSCI Emerging Markets Custom ESG Climate Series A Index      | To closely match the risk and return characteristics of the benchmark   |
| L&G North America Equity - GBP Hedged*                       | FTSE All World Developed North America Index                 | Track the benchmark within 0.5% in two years out of three (gross of fees)                                       |
| L&G Europe (ex-UK) Equity - GBP Hedged*                      | FTSE All World Developed Europe (ex-UK) Index                | Track the benchmark within 0.5% in two years out of three (gross of fees)                                       |
| L&G Japan Equity - GBP Hedged*                               | FTSE All World Japan Index                                   | Track the benchmark within 0.5% in two years out of three (gross of fees)                                       |
| L&G Asia Pacific (ex-Japan) Developed Equity - GBP Hedged*   | FTSE All World Developed Asia Pacific (ex Japan) Index       | Track the benchmark within 0.75% in two years out of three (gross of fees)                                      |
| L&G Active Corporate Bond (Over 10 Year)                     | iBoxx £ Non-Gilt Index Over 10 Year                          | Benchmark + 0.55% p.a. net of fees (gross of fees)  |
| L&G Cash Fund  | 7-Day LIBID  | Match the median performance of similar funds   |
| Ruffer Absolute Return Fund (Segregated)                     | Bank of England Base Rate                                    | Not to provide a negative return over rolling 12 month period and to deliver a return higher than the benchmark |
| Threadneedle Dynamic Real Return Fund                        | UK Consumer Price Index                                      | Benchmark+3.5% p.a. net of fees over 3-5 year investment horizon  |
| Aviva Lime Property Fund                                     | 50% FTSE 5-15 year Gilt Index, 50% FTSE 15 year+ Gilt Index  | Benchmark+1.5% p.a. net of fees   |
| M&G European Loan Fund**                                     | 3-Month LIBOR  | Benchmark+4% p.a. net of fees   |
| BMO Global Absolute Return Bond Fund                         | 3-Month LIBOR  | Benchmark+3% p.a. gross of fees   |
| BMO Liability Driven Investments***                          | Bespoke benchmark specific to the Scheme's liability profile | Outperform the benchmark  |

\*Overseas equity fund benchmarks are adjusted to make an allowance for any applicable withholding taxes and transaction costs.

\*\* Informal objective only – the fund has no stated benchmark or objective.

\*\*\* invested in a combination of the BMO Leveraged Gilt Funds and BMO Enhanced Leveraged Gilt Funds.

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

### **Aligning the investment strategy and decisions of the asset manager with the Trustees' investment policies**

When choosing an investment manager, the Trustees select the manager that most closely aligns with their own investment strategy and policies, including their policy on ESG and climate risk.

The Trustees recognise that when investing in pooled funds there is limited scope to influence the investment managers' strategy and decisions but has resolved to:

- Monitor the performance of the Funds relative to the stated investment objectives and philosophy, on which basis the manager has been appointed, to ensure the investment strategy and decisions continue to be in line with the Trustees' expectations.
- In the event that the investment manager ceases to invest in line with the Trustees' policies and expectations, including the management of ESG and climate related risks, their appointment will be reviewed.

The Trustees' investment in the Ruffer Absolute Return Fund is a segregated mandate rather than a pooled mandate. The Investment Manager Agreement prevents Ruffer from making a direct investment into entities which fall into the following classifications as determined by the ethical screening and research provider:

- Companies which have derived over the past year more than 10% of their revenue from weapons systems, components, and support systems and services; and
- Companies which have derived over the past year more than 10% of their revenue from tobacco-related business activities.

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

In making investment decisions, the Trustees expect the Scheme's active investment managers to assess the long-term financial and non-financial prospects of any investment. The Trustees believe that non-financial factors – such as ESG risk, climate risk and the engagement of investment managers with the companies in which they invest – may have a long-term impact on returns and therefore investment managers should take these into consideration when making decisions.

In order to encourage this, the Trustees have notified the manager of the following:

- The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon and will therefore focus on the performance of the investment managers over this timeframe. In particular, in the case of assets that are actively managed, the Trustees expect this to be sufficient to ensure an appropriate alignment of interests.
- The Trustees do not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.
- The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Trustees monitor this activity within the Implementation Statement in the Scheme's Annual Report and Accounts.

## **How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for investment management services are in line with the Trustees' policies**

### **Evaluation of investment managers' performance**

From time to time the Trustees review the investment managers' performance on a net of fees basis. This is considered over 3-5 year periods, which is consistent with the Trustees' wider investment policies. This review reflects not only fund returns, but also whether the investment managers continue to invest in line with the Trustees' expectations in terms of their investment approach, philosophy and process. This includes the investment managers' approaches to ESG and climate risk.

### **Remuneration of asset managers**

Details of the fee structures for the Scheme's asset managers are contained in the Scheme's Statement of Investment Strategy.

In all cases, the investment manager's remuneration is linked to the value of the assets they manage on behalf of the Scheme. Therefore, as the asset grow in value, due to successful investment by the investment manager, the manager receives more in fees and as values fall they receive less. The Trustees believe that this fee structure incentivises the manager to invest in a way that benefits the Scheme; in particular, it enables the investment manager to focus on long-term performance.

The Trustees ask the Scheme's Investment Consultant to assess whether the investment management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered from time to time.

## **How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range**

The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. However, equally the Trustees believe that active managers can add value through turnover of investments.

When underperformance is identified, the level of turnover may be investigated with the investment manager concerned if it is felt this may have been a significant contributor to the underperformance. In these cases, the Trustees define the target turnover with respect to the market conditions and peer group practices.

## **The duration of the arrangement with the investment manager**

All of the Scheme's investment are in open-ended pooled funds and as such there are no pre-agreed timeframes for investment. However, the Trustees' approach to investing means that investments are expected to be held over a period of 3 years or more.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment aims, beliefs and constraints is assessed periodically as appropriate. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.