

Aberystwyth University Pension & Assurance Scheme

Statement of Investment Principles – November 2023

1. Introduction

The Trustees of the Aberystwyth University Pension & Assurance Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) in order to record the principles adopted by the Trustees when making investment decisions in connection with the management of the Scheme’s assets. The Statement is designed to meet the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation and regulation. The specifics of the Scheme’s investments arrangements are detailed in the Investment Policy Implementation Document (“IPID”), which is available to Scheme members on request.

In preparing this Statement the Trustees have obtained written professional advice from the Scheme’s Investment Consultant, Mercer Limited. The Trustees believe that the Investment Consultant meets the requirements of the Act and subsequent legislation and regulation. In matters where the investment policy may affect the Scheme’s funding policy, input has also been obtained from the Scheme Actuary. The Trustees will obtain similar advice (including actuarial advice if required) whenever this Statement is reviewed.

The Trustees seek to maintain a good working relationship with the Scheme Sponsor, Aberystwyth University, and will discuss any proposed changes to the Statement with the Scheme Sponsor. However, the Trustees’ fiduciary obligations to Scheme members will take precedence over the Scheme Sponsor’s wishes, should these ever conflict. The final decisions in respect of the Scheme’s investment strategy have been made by the Trustees, who have taken written advice from the Scheme’s Investment Consultant.

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Scheme Sponsor that it judges to have a bearing on the Statement. This review will occur no less frequently than triennially.

2. Process for Choosing Investments

The stewardship of the Scheme’s assets may be divided into the following three main areas of responsibility:

- I. The strategic management of the Scheme’s assets (Sections 3 to 7), which is fundamentally the responsibility of the Trustees and is driven by the Trustees’ investment objectives.
- II. The day-to-day management of those assets (Section 8 and the IPID).

- III. Ongoing monitoring of the performance of the appointed investment managers against pre-determined benchmarks – The Trustees receive regular reports on the performance of the Scheme's assets from the investment managers and the Investment Consultant.

In determining whether an investment is appropriate for the Scheme, the Trustees obtain and consider the written advice of the Investment Consultant, whom the Trustees believe to be suitably qualified to provide such advice, consistent with the requirements of the Act.

3. **Governance**

The Trustees consider that they have the skills, information and resources to evaluate critically the advice which they receive on the Scheme's strategic asset allocation and investment managers and to decide an effective strategic asset allocation and investment manager structure for the Scheme. The Trustees have appointed Mercer as actuary and investment consultants. Mercer's performance under each role is assessed regularly by the Trustees.

The agreements between the Trustees, the investment managers and Mercer do not form part of this Statement but are contained in separate documents.

4. **Investment Objectives**

The Trustees' objective is to invest the Scheme's assets in the best interest of the members and beneficiaries. Within this framework, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed.

The Trustees' investment policy is guided by their aim to generate an investment return, over the long term, which is consistent with the long term actuarial assumptions under which the funding plan has been agreed. The Trustees are prepared to take some risk in order to achieve this objective, including investing in equities, alternative assets and non-government bonds, and by using active fund managers to manage some of the Scheme's assets. The Trustees ability and willingness to take such risk is subject to the principles outlined in Section 5 of this Statement.

5. **Risk Management and Measurement**

The Trustees recognise that it is not necessarily possible, or even desirable, to select investments that exactly match the Scheme's estimated liabilities. Given the ongoing commitment of the Scheme Sponsor, the Trustees believe that a degree of investment risk can be taken; in the expectation of generating excess returns relative to the lowest risk strategy (this position is also acceptable to the Scheme Sponsor).

There are various risks to which any pension scheme is exposed, which the Trustees believe to be financially material to the Scheme. Accordingly, the Trustees have considered the following risks over the Scheme's anticipated lifetime:

- The risk of deterioration in the Scheme's funding level, including due to changes in interest rate and inflation expectations, which is managed by the Scheme investing in assets that hedge a proportion of the interest rate and inflation sensitivity of the Scheme's liabilities.
- Volatility in the Scheme's funding level, which may result in short-term volatility in the Scheme Sponsor's contribution rate.
- The risk of a deterioration in the strength of the Scheme Sponsor.
- The risk of a shortfall of assets relative to the liabilities, as determined if the Scheme were to wind up.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. However, the diversification of risk across multiple sources is constrained by the Trustees' ability to implement and effectively monitor the Scheme's investments.
- The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active management involves such a risk. However, the Trustees believe that this risk is outweighed by the potential gains from successful active management in certain asset classes.
- Environmental, social and governance risk, as outlined in Section 10.
- The risk that target levels of liability hedging cannot be maintained as yields increase, due to there being insufficient assets available to meet the collateral calls associated with the Scheme's investments in leveraged liability driven investment ("LDI") funds within the required timescales. The Trustees seek to mitigate this risk through a collateral management framework, whereby the Scheme's LDI manager is able to source cash to meet collateral calls by selling other assets under management, in line with a pre-agreed collateral waterfall. The Trustees monitor the Scheme's asset allocation and collateral position on a regular basis and will take action to top-up the level of assets within the collateral waterfall, if appropriate.

The Trustees have taken advice on these issues from the Investment Consultant and the Scheme Actuary. The Trustees have also held related discussions with the Scheme Sponsor.

The Trustees' willingness to take investment risk is dependent on the continuing financial strength of the Scheme Sponsor and its willingness to contribute appropriately to the Scheme. The financial strength and perceived commitment of the Scheme Sponsor is monitored and the Trustees will review the level of investment risk relative to the liabilities should either of these deteriorate.

The degree of investment risk the Trustees are willing to take also depends on the financial position of the Scheme. The Trustees will monitor the funding level of the Scheme, as well as its liability profile, with a view to altering the investment objective, risk tolerance and/or return target should there be a significant change in either.

The Trustees acknowledge that there are other risks to which the Scheme is exposed and that it is not possible to monitor all of the risks described above at all times. However, the Trustees seek to take on those risks it expects to be rewarded for over time, in the form of excess returns, in a diversified manner. The resulting combination of assets and investment management approaches has been selected to be consistent with the investment objectives, risk tolerance and return target.

6. Portfolio Construction

The Trustees have adopted the following control framework when structuring the Scheme's investments:

- At the total Scheme level, and within individual investment manager appointments, investments should be broadly diversified to ensure there is not a concentration of risk in any one investment or in investments linked by a single issuer. This restriction does not apply to investments in UK Government debt.
- Investment in derivatives is permitted either directly or within pooled funds. Such investments will generally only be made for the purpose of reducing the Scheme's mismatch risks relative to its liabilities, or to facilitate efficient portfolio management.

7. Investment Strategy

Given the investment objectives, the Trustees have implemented the investment strategy detailed in the IPID. The Trustees believe that the investment risk arising from the investment strategy, combined with the risks arising from active management, is consistent with the overall level of risk being targeted.

8. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to investment managers. The Trustees have taken steps to satisfy themselves that the investment managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustees regularly review the continued suitability of the Scheme's investments, including the appointment of the Scheme's investment managers. Details of the appointed managers can be found in the IPID.

9. Realisation of Investments

The Trustees' policy for the realisation of investments is set out in the IPID.

10. **ESG, Stewardship, and Climate Change**

The Trustees believe that environmental, social and corporate governance (“ESG”) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risk and opportunities that increasingly may require explicit consideration.

The Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustees’ key stewardship priorities are:

- Climate change – For example, a vote requiring publication of a strategy that is aligned with the Paris Agreement.
- Biodiversity – For example, a vote to influence a company to address the impact of biodiversity loss.
- Community outreach – For example, a vote that relates to how the entity interacts with the communities in which it operates.
- Board diversity – For example, a vote against the Chair of the nomination committee where the board is not sufficiently diverse or a vote against a director who is not independent.

The Trustees determined these priorities based on their ESG beliefs, taking into account the Scheme Sponsor’s values, objectives and sustainability targets. The Trustees will review the investment managers’ policies and engagement activities (where applicable) on an annual basis.

The strategic rationale of different asset classes that help the Trustees to achieve the Scheme’s investment objectives and constraints remains the primary driver behind the Scheme’s investment strategy. However, within this context, the Trustees are increasingly considering how ESG, climate change and stewardship issues are integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented periodically.

Member views are not explicitly taken into account in the selection, retention and realisation of investments.

The Trustees will invest in investment managers that are signatories to the UN Principles for Responsible Investment wherever this is possible in order to implement the desired strategy. All of the Scheme’s current managers are signatories at the time of writing.

11. **Monitoring the Investment Manager, Advisers and Decision Making**

In line with previous sections of this SIP, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected for.

The Trustees look to their investment consultant for their forward looking assessment of a manager's ability to deliver upon its stated objectives over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management (amongst other things), in relation to the particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives. Some appointments are actively managed and the managers are incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustees will review the appropriateness of using actively managed funds (on an asset class basis) periodically.

As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but believe that appropriate mandates can be selected to align with the overall investment strategy.

The Trustees will also consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy and their key stewardship priorities. This includes the investment managers' policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they may look to replace the manager.

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustees review the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustees' focus is on long term performance but they may put a manager 'on watch' if there are short term performance concerns.

The investment managers are generally remunerated by way of a fee calculated as a percentage of assets under management. Performance related fees may also

apply, although the Trustees ensure that hurdle rate structures are in place to avoid the Trustees paying additional fees during periods of long term underperformance.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees.

The Trustees ask investment managers to include portfolio turnover and turnover costs in their presentations and reports to the Trustees.

The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis. There is no set duration for the manager appointments. The Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment is reviewed and the Trustees decide to terminate for a more suitable appointment.

12. **Investment Restrictions**

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

13. **Compliance with and Review of this Statement**

The Trustees will monitor compliance with this Statement.

The Trustees will review this Statement on a regular basis and at least once every three years. The Statement will be reviewed without delay in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Scheme Sponsor, which the Trustees judge to have a bearing on the stated investment policy. Any such review will be based on expert investment advice and will be carried out in consultation with the Scheme Sponsor.

Signed on behalf of the Trustees of the Aberystwyth University Pension & Assurance Scheme.

Signed: _____ Date: _____

Name: _____

Signed: _____ Date: _____

Name: _____