

# **University of Reading Employees' Pension Fund**

## **Statement of Investment Principles – July 2023**

### **1. Introduction**

The Trustees of the University of Reading Employees' Pension Fund ("the Fund") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. It also meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 as well as taking into account the principles underlying the Investment Governance Group's Code of Best Practice for pension scheme investment.

The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments.

In preparing this Statement the Trustees have consulted the University of Reading ("the University"), as Principal Employer, to ascertain whether there are any material issues of which the Trustees should be aware of in agreeing the Fund's investment arrangements.

### **2. Process For Choosing Investments**

The Trustees' process for choosing investments is as follows:

- Identify appropriate investment objectives.
- Agree the level of investment return expectation consistent with meeting the objectives set.
- Construct a portfolio of investments that is expected to achieve the return expectation (net of all costs) with the minimum degree of risk.

In considering the appropriate investments for the Fund, the Trustees have obtained and considered the written advice of Mercer Limited ("Mercer"), who are regulated by the Financial Conduct Authority ("FCA") and whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

### **3. Governance**

The Trustees consider that they have the skills, information and resources to evaluate critically the advice which they receive on the Fund's strategic asset allocation and investment managers to decide an effective strategic asset allocation and investment manager structure for the Fund.

The Trustees have appointed Mercer separately as actuary and investment consultants. Mercer's performance 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' overriding objective is to invest the Fund's assets in the best interest of the members and other stakeholders and, in the case of a potential conflict of interest, in the sole interest of the members. Within this framework, the Trustees' primary aim is to ensure all benefits are paid when they fall due.

The Trustees have adopted a 'self-sufficiency' approach whereby the Fund's assets are less risky and there is a reduced probability of a funding deficit opening up in the future relative to the prior strategy. The portfolio is therefore predominantly invested in a range of credit based asset classes, broadly designed to generate income to meet pension outgo as it falls due. The Trustees are comfortable that the strength of the covenant offered by the University means that they can take a degree of risk in the portfolio over the longer term.

#### **5. Risk Management and Measurement**

There are various risks to which any pension scheme is exposed. The Trustees have considered the following risks:

- The risk of deterioration in the Fund's funding level.
- The risk that the appointed investment managers, in 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.
- The Trustees recognise that whilst increasing risk increases potential returns, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's accruing liabilities as well as increasing volatility in the Fund's funding position. The Trustees take advice on the matter and (in light of the objectives noted in Section 4) carefully consider the implications of adopting different levels of risk.
- 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.
- The documents governing the investment managers include a number of guidelines which are designed to ensure that only suitable investments are held by the Fund. The investment managers are not authorised to invest in asset classes outside of their mandate without the Trustees' prior consent.
- Arrangements are in place to monitor the Fund's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees

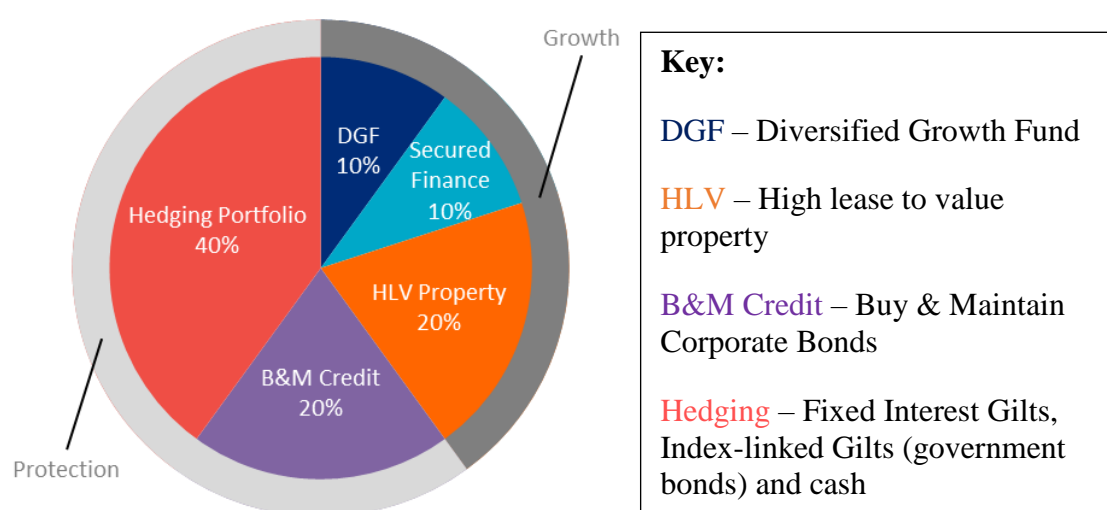
receive regular reports from the investment consultant on progress against the long term objective, cashflow requirements and the overall level of risk.

- The safe custody of the Fund’s assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Fund’s circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered.

## 6. Investment Strategy

The Trustees have adopted the strategic allocation shown below. Implementation is expected to be complete in Q3 2023.



Asset Class	Investment Manager	Benchmark Allocation (%)
Diversified Growth Fund	LGIM	10.0
HLV Property	LGIM	20.0
Secured Finance	Insight and Schroders (via Mercer)	10.0
Buy & Maintain Credit	BlackRock	20.0
Hedging Portfolio (Fixed Interest Gilts, Index-linked Gilts and cash)	BlackRock	40.0
Total		100.0

The hedging portfolio is designed to reduce risk relative to the Fund’s liabilities by investing in a range of gilt and index linked gilt funds. These assets are expected to

behave in a similar way to the Fund's liabilities in response to movements in long-term interest rates and inflation expectations. The Trustees aim to hedge broadly 80% of the interest rate and inflation risk associated with the Fund's liabilities (on a gilts +0.5% p.a. basis) via the hedging portfolio and Buy and Maintain Credit mandate. It is noted that the hedge will not always exactly track the Fund's specific liabilities, however the Trustees will monitor relative performance on a quarterly basis and review the structure of the hedging portfolio when appropriate, for example following any substantial change to the Fund's liabilities.

Whilst the Trustees do not have strict control ranges, the Fund's asset allocation is monitored regularly and will be rebalanced towards the strategic benchmark as deemed necessary.

#### **7. Expected Return on Investments**

The expected return on investments will be in line with the target investment strategy which is set to support the technical provisions discount rate and is aligned with the Trustees' long term funding target.

#### **8. Day-to-Day Management of the Assets**

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

The Trustees regularly review the continuing suitability of the Fund's investments as well as the appointed managers. Any adjustments will be undertaken with the aim of ensuring the overall level of risk and return is consistent with that being targeted.

#### **9. Additional Assets**

Under the terms of the Trust Deed the Trustees are responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustees review the investment performance of the chosen providers on a regular basis and take advice as to the providers' continued suitability.

#### **10. Realisation of Investments**

In general, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments.

#### **11. Rebalancing**

The Trustees monitor the allocation between the appointed managers and between asset classes and will rebalance the portfolio as and when necessary.

#### **12. Responsible Investment and Corporate Governance**

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 risks 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 consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis by receiving updates from investment managers and by Mercer providing the Trustees with ESG ratings for the strategies in which the Fund invests.

The Trustees do not directly take account of member views when making investment decisions, however the Trustees always aim to act in the best interests of members. The Trustees communicate with members via annual newsletters.

Similarly, the Fund's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

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 the Trustees have appointed them for.

For active mandates, the Trustees look to their investment consultant for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view is based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment that the Fund invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager changes, the Trustees will review the Fund's 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 or significant outperformance). The Trustees will review the appropriateness of using actively managed funds (on an asset class basis) each year.

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 managers, 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. This includes the investment managers' policies on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustees meet with the investment managers at least every two years and can challenge decisions made, including voting history and engagement activity, to try to ensure the best performance over the medium to long term.

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 over a full market cycle. The Trustees' focus is on long term performance but may put a manager 'on watch' if there are short term performance concerns.

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 will engage with a manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus.

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;
- The manager appointment is reviewed and the Trustees decide to terminate for a more suitable appointment.

As the Fund holds predominantly credit based investments, it is noted that the level of voting is lower than for equity based investment strategies, as such, the Trustees have decided to focus on engagement activity rather than voting for reporting. The Trustees will consider the size of any holding in reporting significant votes as set out below.

The Trustees define a significant vote as one that is linked to the Fund's stewardship priorities/themes. The Trustees have decided to report on votes related to material holdings (over 5% of underlying Fund assets), and will aim to focus on in the following stewardship areas:

- Environmental (E) – Climate change
- Social (S) - Human rights (including modern slavery)
- Governance (G) – Executive remuneration (any vote against a remuneration report where executives are awarded bonuses despite missing targets)
- Governance (G) – Diversity (any vote against chair when the board is not sufficiently diverse)

### **Review of this Statement**

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.