

University of Wales, Lampeter Pension & Assurance Scheme

Statement of Investment Principles

1. Introduction

The Trustees of the University of Wales, Lampeter Pension & Assurance Scheme (hereinafter referred to as “the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005, subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments.

In preparing this statement, the Trustees have consulted with the University of Wales Trinity Saint David (the “Employer”) and obtained and considered written professional advice from Mercer Limited, (the “Investment Consultant”). The Trustees believe the Investment Consultant meets the requirements of Section 35(5) of the Pensions Act 1995 (as amended).

2. Process for Choosing Investments

The Trustees have considered their investment and funding objectives together and in light of the strength of the Employer covenant to ensure that the two are compatible and supportable. The Trustees have then constructed a portfolio of investments consistent with these objectives and which they hope will deliver the maximum level of return (net of all costs) for the level of risk taken on (taking into account limitations on the overall complexity of arrangements appropriate to the size of assets under management).

The Trustees take into account what they believe to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance (“ESG”) issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Scheme the Trustees have obtained and considered the written advice of the Investment Consultant 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. Investment Objectives

The objectives set out here, and the risks and other factors referenced, are those that the Trustees determine to be financially material considerations in relation to the Scheme.

The Trustees are required to invest the Scheme’s assets in the best interest of the members, beneficiaries and the Employer and in the case of a potential conflict of interests in the sole interest of the members and beneficiaries.

Within this context the Trustees’ main objectives with regard to investment policy are:

- To make sure that the Trustees can meet the obligations which have been promised to the beneficiaries of the Scheme by the Employer.

- To ensure consistency with the Scheme's funding arrangements.
- To pay due regard to the Employer's interests on the size and incidence of Employers' contribution payments.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term. However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

4. Risk Management and Measurement

There are various risks to which any pension plan is exposed, which the Trustees believe may be financially material to the Scheme. The Trustees recognise that whilst increasing risk may increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover changes in the Scheme's accrued and accruing liabilities especially over the short to medium term. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk. The Trustees' policy on risk management over the Scheme's anticipated lifetime is set out below.

Key strategic investment risks that impact on Scheme funding are as follows:

- **Interest Rate Risk** – the risk that changes in the value of the assets do not move in line with changes in the value placed on the Scheme's liabilities in response to changes in interest rates;
- **Inflation Risk** – similar to interest rate risk but concerning inflation;
- **Credit Risk** – the risk that one party to a financial instrument will cause a financial loss to the Scheme by failing to discharge an obligation.
- **Currency Risk** – the risk that foreign currency exposure causes asset valuations to fluctuate in an uncorrelated way with the value of the liabilities which are denominated in Sterling.
- **Liquidity Risk** – the risk that the Scheme doesn't have sufficient liquid assets to meet payments.

Considerations specific to Environmental, Social and Governance issues are addressed in Section 10.

To manage investment risks, the Trustees have established an investment policy designed to reduce risk, without damaging the Scheme's long term return prospects, using asset-liability modelling conducted by Mercer which measures the contribution of different risk factors to overall Value at Risk ("VaR").

In particular:

- Interest rate and inflation risks are managed through an allocation to bonds which change in value in a similar manner to the Scheme's liabilities in response to changes in long-term interest rates and inflation expectations.
- Credit risk is managed via the strategic allocation and investing in pooled fund(s) with diversified holdings of bonds that are predominantly of investment grade quality.
- Currency risk is managed through the total allocation to overseas markets.

- Regarding liquidity risk, the Trustees believe that the Scheme's investments are realisable at short notice in most prevailing market conditions.

The Trustees recognise the following additional risks and take the following steps to manage risk:

- Risks that may arise from the lack of diversification of investments. The Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The Trustees recognise the risk that, on average, members live longer than was assumed when the Scheme's liabilities were valued, and keep this under review at each Actuarial Valuation.
- The Trustees recognise that the use of active management involves a risk that the assets do not achieve the expected return. The performance of the investment manager is reviewed on a regular basis.
- The documents governing the manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The manager is prevented from investing in asset classes outside of its mandate without the Trustees' prior consent.
- The Trustees receive quarterly reports from the investment manager to help check that nothing has occurred that would bring into question the continuing suitability of the current investments.
- The safe custody of the Scheme's assets is delegated to professional custodians (via the use of pooled vehicles).
- Across all of the Scheme's investments, the Trustees are aware of the potential for regulatory and political risks. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

Overall, the Trustees primarily measure and manage investment risk through the investment strategy (outlined in Section 6) and review the appropriateness of this strategy on a regular basis.

The Trustees' willingness to take investment risk is dependent on the continuing financial strength of the Employer and its willingness to contribute appropriately to the Scheme. The financial strength of the Employer and its perceived commitment to the Scheme is monitored and the Trustees will review 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 other circumstances, including the financial health of the Scheme, the Scheme's liability profile and investment time horizon. The Trustees will monitor these with a view to altering the investment objectives, risk tolerance and/or return target and asset mix, should there be a significant change in these factors.

5. Portfolio Construction

The Trustees have adopted the following principles subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with that detailed in Sections 3 and 4 and subject to the Trust Deed & Rules:

- There is a role for both **active and passive management**. Passive management involves employing investment managers to deliver a return equal to a chosen benchmark appropriate to the asset class held. Active management involves employing investment managers who aim to outperform a benchmark but with a risk that they will underperform. The Trustees consider the appropriateness for both active and passive management when implementing investment strategy.
- Due to the size of the Scheme, **investments will be implemented through the use of pooled vehicles**. The Trustees consider the need for diversification, available vehicle, investment restrictions contained in pooled funds, ease of administration and portability of underlying investments when investing in pooled funds.
- **Specialist mandates** are preferred over generalists because of the potential to access a higher level of expertise. However, the Trustees limit the number of directly appointed managers so as to manage their overall monitoring requirements. Also there should be some flexibility to move between asset classes notwithstanding the appointment of specialists.
- At the total Scheme level investments should be **broadly diversified** to ensure there is not a concentration of exposure to any one market or issuer, to the extent that this is not protected (e.g. by collateral). This restriction does not apply to investment in UK Government bonds.
- The amount invested in **highly concentrated portfolios** will take into account the level of risk this represents taking into account the Scheme's assets overall.
- The Trustees recognise that there is **liquidity risk** in holding assets that are not readily marketable and realisable. Given the long-term investment horizon of the Scheme, the Trustees believe that a degree of liquidity risk is acceptable because they expect to be rewarded for assuming it. The amount invested in illiquid investments, such as property or pooled property funds and private markets, will take into account the implications of not being able to readily liquidate a proportion of the Scheme's investment on the operation of the Scheme.
- Investment in **derivatives** is permitted directly or within pooled funds for risk reduction purposes or to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).
- Investment may be made in securities that are not traded on **regulated markets**. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing risk or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustees will not invest directly, or lend to, the **Scheme Employer** or associated entities.
- **Direct borrowing** (such as the use of an overdraft facility) is not permitted except to cover short term liquidity requirements. The use of **borrowing within pooled funds** is reviewed by the Trustee as part of the on boarding process for new investments.

6. Investment Strategy

The Trustees have agreed, based on expert advice, an investment strategy that is consistent with the Trustees' funding and investment objectives. The split of assets within each asset class (excluding any cash held separately to meet day to day cash flow requirements) is set out in the table below. The target investment strategy is expected to provide c. 100% protection against interest rate and inflation risk versus the Scheme's Solvency liabilities (an estimate of buy-in pricing).

Fund	Target %
<i>Protection assets (Bonds)</i>	<i>100.0</i>
Active Corporate Bond – Over 10 Year Fund	15.0
Over 15 Year Gilts Index	18.5
All Stocks Gilts Index	28.0
5 to 15 Year Gilts Index	6.0
Over 15 Year Index-Linked Gilts Index	18.0
Over 5 Year Index-Linked Gilt Index	2.0
All Stocks Index-Linked Gilts Index	3.5
5 to 15 Year Index-Linked Gilts Index	5.0
0 to 5 Year Index-Linked Gilts Index	2.5
Sterling Liquidity Fund	1.5
Total	100.0

The Trustees recognise that the actual allocation will deviate from this target due to market movements.

Asset allocation rebalancing ranges have not been applied to the Scheme's assets (Protection Assets) because any rebalancing may result in a deviation of the Scheme's interest rate and inflation protection levels. The allocation to Protection Assets will be rebalanced at least annually following the recalibration of the Scheme's liabilities (at Scheme year-end) by the Scheme Actuary.

The Trustees now hold 1.5% of Scheme assets in a liquidity vehicle (the Sterling Liquidity Fund) to aid efficient cashflow management.

7. Expected Return

The Trustees expect to generate a return, over the long term, at least in line with that of the actuarial assumptions under which the Scheme's funding has been agreed. It is recognised that over the short term performance may deviate significantly from the long term target.

8. Day-to-Day Management of the Assets

Day to day management of the assets, including selection, retention and realisation, is delegated to a professional investment manager regulated by the FCA. The investment manager has full discretion to buy and sell investments on behalf of the Scheme subject to agreed constraints and applicable legislation. The Trustees have taken steps to satisfy themselves that the investment manager has the appropriate knowledge and experience for managing the Scheme's investments and is carrying out its work competently.

The managers' performance benchmarks and objectives are set out below:

Fund	Benchmark	Investment Objective
<u>Protection Assets (Bonds)</u>		
Active Corporate Bond – Over 10 Year Fund	iBoxx £ Non-Gilts 10 Year +	To exceed the benchmark by 0.75% p.a. gross of fees over 3 year periods
Over 15 Year Gilts Index	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	
All Stocks Gilts Index	FTSE Actuaries UK Conventional Gilts All Stocks Index	
5 to 15 Year Gilts Index	FTSE Actuaries UK Conventional Gilts 5-15 Years Index	To track the benchmark index within +/-0.25% p.a. for two years out of three.
Over 15 Year Index-Linked Gilt Index	FTSE Actuaries UK Index-Linked Gilts Over 15 Years Index	
Over 5 Year Index-Linked Gilt Index	FTSE Actuaries UK Index-Linked Gilts Over 5 Year Index	
All Stocks Index-Linked Gilts Index	FTSE Actuaries UK Index-Linked Gilts All Stocks Index	
5 to 15 Year Index-Linked Gilts Index	FTSE Actuaries UK Index-Linked Gilts 5-15 Years Index	
0 to 5 Year Index-Linked Gilts Index	FTSE Actuaries UK Index-Linked Gilts 0-5 Years Index	
Sterling Liquidity Fund	SONIA (Sterling Overnight Index Average)	To provide diversified exposure and a competitive return in relation to SONIA

9. Selection, Retention and Realisation of Investments

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Scheme's overall strategic allocation and consistent with the overall principles set out in this Statement.

The investment manager has discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The investment manager has undertaken not to exceed the Trustees' investment powers as set out in the Trust Deed. As already mentioned, the day to day activities which the investment manager carries out are governed by the investment management agreement, which is reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

10. ESG, Stewardship and Climate Change (including Engagement Activities)

The Trustees believe that financially material factors, including 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 may apply over the Scheme's investment time horizon and increasingly may require explicit consideration.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Scheme's assets are invested in pooled vehicles and the day-to-day management of the Scheme's assets has been delegated to the investment manager, including the selection, retention and realisation of investments within their mandates. In doing so the investment manager is expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise 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. This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers' performance strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

The Trustees engage with the investment manager on these issues through (amongst other things) meetings and periodic correspondence and will monitor investment manager engagement activity (such as voting) at least annually. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring the existing investment manager and retaining or withdrawing from the investment manager. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of the existing investment manager is undertaken on a regular basis and this makes use of the investment consultant's ESG ratings.

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

The Trustees will not consider the ESG policies of Additional Voluntary Contributions provider(s) and associated investment funds as these are a small proportion of total assets.

In line with DWP guidance relating to "Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance" the Trustees, after consultation with Mercer have determined their definition of a 'significant vote'.

The Trustees have identified votes that relate to ESG and relate to a company that constitutes 1.25% or more of the specific fund's net asset value.

11. Non-Financial Matters

Non-financial matters (where non-financial matters” includes members’ ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustees would review this policy in response to significant member demand.

12. Investment Manager Arrangements

Investment Managers are appointed based on perceived capabilities and, therefore, their perceived likelihood of achieving their expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance and, in relation to passive management, suitable levels of “tracking error” against a relevant benchmark.

The Trustees seek expert advice from their investment consultant in relation to these appointments. This advice may consider factors such as the manager’s idea generation, portfolio construction, implementation and business management, as well as the appointed Investment Manager’s approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

The Trustees invest the Scheme’s assets in multi-investor pooled investment vehicles and accept that they have little to no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustees’ own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms. The Trustees make appointments with the view to them being long term, to the extent to which this is consistent with the Trustees’ overall investment time horizon, and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at short notice,

For each appointment, retention is dependent on the Trustees having ongoing confidence that the investment manager will achieve its objective. The Trustees make this assessment taking into account various factors which includes performance to data as well as an assessment of future prospects.

Investment Managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustees’ policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitable long term view when assessing the performance prospects of, and engaging with, the equity and debt issues in which they invest or seek to invest.

Performance Assessment & Fees

Investment returns (and volatility) are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs. The Trustees’ focus is on long-term performance but may put a manager ‘on watch’ if there are short-term performance concerns.

As well as assessing investment returns, the Trustees will consider a range of other factors, with the assistance of their investment consultant, when assessing investment managers, which may include:

- Personnel and business change;

- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Voting and engagement activity;
- Service standards;
- The investment consultant's assessment of ongoing prospects based on their research ratings.

Investment Managers are typically remunerated by the way of a fee calculated as a percentage of assets under management. The principal incentive is for the investment manager to retain their appointment by achieving their stated objectives in order to continue to receive the associated fee. The Trustees will consider any performance related fees on a case by case basis and would also consider requesting fee reductions. Investment Managers are not remunerated based on portfolio turnover.

Portfolio Turnover Costs

Turnover costs arise from (a) "ongoing" transactions within an investment manager's portfolio and (b) "cashflow" costs incurred when investing or realising assets from a mandate. The Trustees have not historically monitored investment managers' ongoing transaction costs explicitly.

The Trustees do not monitor regular cashflow costs (but seek to minimise them through ongoing cashflow policy). The Trustees monitor the costs of implementing strategic change via their investment consultant.

13. Fee Structure

The investment manager is paid a management fee based on the value of assets under management. More detail of these fees can be found in the managers' investment agreements.

14. Compliance with this Statement

The Trustees monitor compliance with this Statement annually.

15. 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.

Name Mark Rainey Signature  Signed by:
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For and on behalf of the Trustees of the University of Wales, Lampeter Pension & Assurance Scheme