

University of Manchester Superannuation Scheme

Summary of Investment Arrangements – May 2021

1. Introduction

The Statement of Investment Principles (SIP) of the University of Manchester Superannuation Scheme (the Scheme) sets out the guiding principles upon which the Scheme's investments are based. The purpose of this summary is to provide details of the specific investments in place alongside other information relevant to the management of the investments.

Investment policy can be considered in two parts; (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustee and (2) the day-to-day management of the assets, which has been delegated to professional Investment Managers.

2. Strategic Management

Following the 2019 Actuarial Valuation, the Trustee reviewed the Scheme's investment strategy, which resulted in the Scheme materially reducing investment risk. The overall target allocation of the Scheme's assets following the review is **10% to Equities, 25% to Growth Fixed Income Assets** and **65% to Matching Assets** as detailed in the table below.

Due to the illiquid nature of some of the Scheme's investments, the investment strategy will take a number of years to fully implement. During this time, it is anticipated that the Scheme will be overweight to Growth Fixed Income Assets and underweight to Matching Assets. Further details of the illiquid assets can be found in section 3.1.4 "Legacy Assets".

Asset Class	Target Allocation %	Normal Ranges %
Listed Equities*	10	5 – 15
Growth Fixed Income Assets**	25	20 – 30
Matching Assets	65	60 – 70
Total	100	

* The Scheme holds investments in Private Equity funds (managed by Goldman Sachs Asset Management and Schroder, in Fund of Funds vehicles) and Renewable Energy (the NTR Renewable Energy Fund, managed by BlackRock) which do not form part of the Scheme's strategic investment strategy. These investments are illiquid and may take a number of years to mature.

** The Scheme holds Growth Fixed Income Assets in Real Estate Debt (in funds managed by M&G via the Real Estate Debt Funds I, II, III and VI, LaSalle via the Real Estate Debt Strategies II Fund, ICG-Longbow via the UK Real Estate Debt Investments Funds III and V, Goldman Sachs via the Broad Street Real Estate Credit Partners II Fund and GAM via the Real Estate Finance Fund). In addition, the Scheme also holds an investment in the Morgan Stanley North Haven Credit Partners II fund. These funds do not form part of the Scheme's strategic investment strategy however they are illiquid and will take a number of years to mature.

Equities (or growth assets) are assets that generate expected returns above risk free rates through holding shares in listed companies. These can include public and private equities, and infrastructure equity.

Growth Fixed Income Assets (or cashflow generative assets) are those that typically generate cashflows, some of which are inflation-linked, similar to the Scheme's liabilities, but also offer a yield above gilts. These can include high yield bonds, emerging market debt, private debt, loans, and secured income property.

Matching Assets (or defensive assets) are those that share some characteristics with the Scheme's liabilities. These can include Liability Driven Investments (LDI), investment grade corporate bonds and cash.

There is no automatic rebalancing between the various asset classes. The Investment Committee will keep the Scheme's overall asset allocation under review and has delegated authority from the Trustee board to instruct the Investment Managers to implement any changes to the assets, within the normal ranges set out above, that it deems appropriate.

Cashflow available for investment will be invested after taking advice.

3. Day to day management of the assets

The Scheme's Investment Managers are regulated by the Financial Conduct Authority. As required by the Financial Services and Markets Act 2000, the Trustee has entered into agreements with the Scheme's Investment Managers. The agreements provide important protections for the Scheme and for the Trustee. They also set out the terms under which the assets are managed; the investment brief, guidelines and restrictions under which the Investment Managers work.

3.1 Appointed Investment Managers

3.1.1 Public Equities (c.10%of portfolio)

The Trustee delegates the day to day management of the Scheme's public equity allocation to the following Investment Managers:

- Stewart Investors: Worldwide Sustainability Fund – c. 5% of portfolio.
- Impax Asset Management: Global Equity Opportunities Fund – c. 5% of portfolio.

3.1.2 Growth Fixed Income (c.25%of portfolio)

Property – 10%

Exposure to property is achieved via the M&G Secured Property Income Fund, the LGIM LPI Income Property Fund and the Aviva Lime Property Fund. The objective of

the above Property Funds is to deliver low risk, long term income with a high degree of inflation linked rents.

Multi-Asset Credit – 15%

The Scheme has made an allocation to Multi-Asset Credit (MAC) through the Wellington Multi-Sector Credit fund. MAC is a term used to describe investment in a wide range of credit-based asset classes. The credit-based asset classes can include bank loans, high yield bonds, emerging market debt and structured finance. MAC strategies can also make allocations to investment grade credit, government bonds and cash.

3.1.3 Matching Assets (c.65%of portfolio)

LDI (35%)

The Trustee delegates the day to day management of the Scheme's LDI assets to LGIM, who invest the assets in the following pooled funds:

- LDI portfolio (a number of pooled funds)
- Sterling Liquidity (Cash) Fund

LGIM are responsible for the actual allocation between the various pooled funds, the Trustee sets a target hedge ratio, detailed in the SIP, and LGIM are responsible for maintaining the appropriate composition of pooled funds at their disposal to efficiently manage the Scheme's hedge ratio, the Trustee monitors LGIM.

Buy & Maintain Corporate Bonds (30%)

The mandates aim to capture the additional yield available from investing in corporate rather than government bonds (the "credit risk premium") and preserve value within a diversified portfolio of actively selected credit instruments. Any non-sterling based currency or interest rate exposure is expected to be hedged back to sterling. The key objective of the funds is to avoid defaults and downgrades on credit instruments held.

The Trustee delegates the day to day management of the Scheme's Buy & Maintain Corporate Bond allocation to the following Investment Managers:

- LGIM – target 15% of portfolio.
- Royal London Asset Management – target 15% of the portfolio

3.1.4 Legacy Assets

Private Equity

The Scheme invests in private equity funds, managed by Goldman Sachs Asset Management and Schroder, in Fund of Funds vehicles. These private equity funds focus on achieving long term capital growth by investing in portfolios of other private equity funds.

Renewable Energy

An allocation of the Scheme's assets is also made to the NTR Renewable Energy Fund, managed by BlackRock. The fund provides private equity exposure to investments in solar power generation and on and offshore wind turbine assets in Europe and North America.

Real Estate Debt

The Trustee has allocated a portion of the Growth Fixed Income Assets to real estate debt. Real estate debt is a loan that the borrower is obliged to pay back which is secured by a specified real estate property as collateral.

Exposure to Real Estate Debt is achieved via the following funds:

- M&G via the Real Estate Debt Funds I, II, III and VI
- LaSalle Real Estate Debt Strategies II Fund
- ICG-Longbow UK Real Estate Debt Investments Funds III and V
- Goldman Sachs Broad Street Real Estate Credit Partners II Fund
- GAM through their Real Estate Finance Fund

The investment objective of the M&G, GAM and LaSalle funds is to provide attractive risk-adjusted returns and stable distributions, by providing real estate debt capital to the West-European commercial property market, whereas ICG-Longbow is focused on the UK property market.

The Goldman Sachs' fund aims to offer attractive risk adjusted returns through a portfolio of debt investments backed by real estate.

Other Growth Fixed Income Assets

The Scheme also holds an investment in the following fund:

- Morgan Stanley North Haven Credit Partners II

The Morgan Stanley fund invests in the private debt of companies and aims to offer attractive risk adjusted returns.

4. Additional Assets

Separate from the main Scheme assets described above, the Trustee may from time to time hold insurance policies or other assets which are earmarked for the benefit of certain members, including deferred or immediate annuity policies purchased to match part or all of the Scheme's liabilities.

In addition, the Scheme holds cash to meet short-term requirements and this cash is managed by the University of Manchester's Chief Financial Officer.

5. Advisors

5.1 Custodian

The role of a custodian is to ensure the safekeeping of the assets and facilitate all transactions entered into by the appointed Investment Managers.

The Trustee is not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments.

5.2 Investment Consultant

Whilst the day-to-day management of the Scheme's assets is delegated to Investment Managers, all other investment decisions including strategic asset allocation and selection and monitoring of Investment Managers is based on advice received from the Investment Consultant. Mercer Ltd has been appointed for this purpose.

6. Fee Structures

The Investment Managers levy fees based on a percentage of the value of the assets under management. In addition, some of the Investment Managers also levy a performance-related fee element.