University of Manchester Superannuation Scheme

Statement of Investment Principles – May 2021

1. Introduction

UMSS Limited, as Trustee of the University of Manchester Superannuation Scheme (the Scheme) has drawn up this Statement of Investment Principles (the Statement) to comply with the requirements of the Pensions Act 1995 (the Act) and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. A separate document, the Summary of Investment Arrangements detailing the specifics of the Scheme's investment arrangements is available upon request.

In preparing this Statement the Trustee has consulted the University of Manchester to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements. The Trustee has also taken into consideration the requirements of Section 35 of the 1995 Pensions Act ("Investment Principles"), Section 244 of the 2004 Pensions Act, the Occupational Pension Schemes (Investment) Regulations 2005 and the Myners Review of Institutional Investment.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Agree the level of investment risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk

In considering the appropriate investments for the Scheme, the Trustee will obtain and consider the written advice of an Investment Consultant, Mercer Ltd, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee's primary objective is to invest the Scheme's assets in the best interests of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. To help achieve the primary objective, the Trustee has adopted a revised funding target as part of the 2019 actuarial valuation, which was made in conjunction with a reduction in investment risk, whereby the Scheme is targeting to be fully funded on the Technical Provisions basis by 2031.

Within this framework, the Trustee is aiming to generate an investment return, over the long term, above that of the actuarial assumptions under which the funding plan has been agreed.

The objectives set out above and the risks and other factors referenced in this Statement are those the Trustee determines to be financially material considerations in relation to the Scheme.

4. Risk Management and Measurement

There are various investment risks to which any pension scheme is exposed, which the Trustee believes may be financially material to the Scheme. In addition to investment risks, the Scheme is also exposed to other risks, such as membership demographics, which the Trustee considers separately and are covered under the Trustee's Risk Register. The Trustee's policy on risk management over the Scheme's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities. The Trustee manages this risk by allocating a portion of the Scheme's assets to assets that possess similar characteristics to the Scheme's liabilities, referred to as Matching Assets. The current target allocation to Matching Assets is 65% (Section 6 provides additional information on the Matching Assets portfolio). The target "hedge ratio" for the Matching Assets is 80% of the Scheme's Technical Provisions liabilities in relation to changes in interest rates and inflation.

- The Trustee recognises that whilst taking additional risk can increase potential returns over the longer term, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position and contribution requirements from the University.

- The Trustee recognises 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 Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the nature of the Scheme's investments, exposure to each asset class is obtained via pooled vehicles.

- The documents governing the manager appointments include guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

- Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives regular reports from all the Investment Managers and the Investment Consultant – Mercer Ltd. These reports include an analysis of the overall level of risk and return, along with their component parts, to ensure the risks taken and returns achieved are consistent with those expected.

- The safe custody of the Scheme's assets is delegated to professional custodians (via the use of pooled vehicles).

- The Trustee recognises the risk of holding assets denominated in foreign currencies relative to sterling based liabilities and a portion of this exposure is hedged to sterling.

- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, may have a material impact on risk and return. Section 11 sets out how these risks are managed.

- The Trustee recognises liquidity risk in relation to the need to meet benefits as and when they fall due, as well as in relation to meeting commitments made to investments that are drawn down over time. The Trustee manages this risk by monitoring liquidity on at least a quarterly basis to ensure sufficient readily realisable assets, including cash, are held.

- The Trustee recognises the risk that the University continues to have the ability and willingness to support the continuation of the Scheme and to make good any current or future deficit. The Trustee regularly reviews the position of the University, through dialogue with the University and assessment of other factors, including the size of its overall liabilities.

Should there be a material change in the Scheme's or the University's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

5. Portfolio Construction

The Trustee has adopted the following control framework in structuring the Scheme's investments:

- Assets are diversified across the available asset classes, including, but not limited to equities, property, bonds, higher yielding assets and cash.

- There is a role for both active and passive management.

- A number of managers have been appointed to help diversify manager specific risk.

- At the total fund level and within individual manager appointments investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investments in UK Government debt.

- Investment may be made in securities that are not traded on regulated markets, via appropriately authorised and experienced investment managers. Such investments are commonplace amongst pension schemes at they can deliver attractive risk adjusted returns for long term investors. The Trustee considers that one of the key risks associated with investing in securities that are not traded on regulated markets is that of liquidity and the Trustee monitors this risk on an ongoing basis. Recognising the risks (including liquidity) the Trustee will ensure that the assets of the Scheme are predominantly invested on regulated markets. In addition, investments made in securities that are not traded on regulated markets are diversified across assets types, geography and investment managers.

- No investment is permitted in securities issued by the University of Manchester, any of its affiliated companies or any participating employer (other than any such securities held within a pooled fund in which the Trustee invests).

- No investment by an appointed Investment Manager in the securities issued by the relevant manager's company or any affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).

- Borrowing is not permitted except as to cover short term liquidity requirements.

- Derivatives may be used to match liability or cash flow characteristics more closely. They can also, through the use of leverage, provide increased exposure to interest and inflation rates to reduce the proportion of the Scheme's assets that need to be held in the matching asset portfolio to achieve a given level of matching. The use of derivatives is only to contribute to a reduction in risks, or to facilitate efficient portfolio management.

6. Investment Strategy

Given the investment objectives, the Trustee has agreed to implement an investment strategy that allocates around **10%** to **Equities**, **25%** to **Growth Fixed Income Assets** and **65%** to **Matching Assets** as detailed in the table below.

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

* Due to the illiquid nature of some of the Scheme's investments, full implementation of the target allocations is expected to take several years to be completed. In particular, the Scheme will continue to have exposure to Real Estate Debt and other Private Credit until the respective funds wind down. During the intervening period, the Scheme will be overweight to Growth Fixed Income Assets and underweight to Matching Assets.

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

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 include high yield bonds, emerging market debt, private debt, loans, and secured income property. The Scheme accesses a range of these underlying asset classes through its Multi-Asset Credit allocation.

Matching Assets (or defensive assets) are those that share some characteristics with the Scheme's liabilities. These include liability driven investments (LDI), corporate bonds and cash.

The Trustee believes that the investment risks arising from the investment strategy are consistent with the overall level of risk being targeted.

The Investment Committee will keep the Scheme's overall asset allocation under review and has delegated authority from the main Trustee board to implement the agreed strategy and instruct the Investment Managers to implement any changes to the asset mix, within the normal ranges set out above, that it deems appropriate.

7. Day–to-Day Management of the Assets

The Trustee delegates the day to day management for the majority of the Scheme's assets to Legal & General Investment Management Limited (LGIM), who invest the assets in pooled funds. A number of other managers have been appointed in respect of the **Equity Assets and Growth-Fixed Income Assets** held. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently. The Trustee has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed Investment Manager may operate.

The Trustee regularly reviews the continuing suitability of the Scheme's investments, including the appointed managers.

Details of the appointed managers can be found in a separate document produced by the Trustee, the Summary of Investment Arrangements, which is also available on the website.

8. Expected Return

The Trustee expects to generate a return, over the long term, above that of the actuarial assumptions under which the funding plan has been agreed. It is recognised that, particularly over the short term, performance may deviate from the long term target.

9. Additional Assets

Separate from the Scheme's main 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's Chief Financial Officer.

10. Realisation of Investments

The Investment Managers have 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 Trustee monitors the allocation between the appointed managers and between asset classes as set out in the Summary of Investment Arrangements.

11. ESG, Stewardship and Climate Change

The Trustee believes that good stewardship and environmental, social and governance (ESG) issues 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 Trustee also considers that long-term sustainability issues, including climate change, present risks and opportunities that increasingly require explicit considerations. The Trustee has taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process. For this reason the Trustee has appointed a mix of Investment Managers that include a strong focus in these areas, including sustainably focused Investment Managers.

The Investment Managers provide the Trustee with regular reports covering ESG issues, and Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Due to the use of pooled investment vehicles, the Trustee accepts that the Investment Managers have full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Scheme's investments. However, the Trustee regularly monitors and challenges how the Investment Managers integrate ESG issues within their investment processes and uses the ESG ratings of its Investment Consultant as part of overall Investment Manager monitoring and review. In addition, the Trustee also carries out an annual formal review, with the assistance of its Investment Consultant, of how the appointed Investment Managers integrate ESG issues into their investment processes to assess the effectiveness of the applied approaches.

The Trustee wishes to encourage best practice in terms of activism. The Investment Managers are therefore encouraged to discharge their responsibilities in respect of investee companies in accordance with the Statement of Principles drawn up by the Institutional Shareholders' Committee.

The Trustee accepts that by using pooled investment vehicles for its quoted equity investments, the day-to-day application of voting rights will be carried out by the Scheme's Investment Managers. The Trustee has reviewed the voting policies of their Investment Managers and is comfortable that the Investment Managers will exercise their voting rights with a view to promoting strong corporate governance. The Trustee monitors voting activity to verify that the managers are actively voting in investee companies and engaging with management to encourage strong corporate governance and responsible business behaviour.

The Trustee has not set any investment restrictions on the appointed Investment Managers in relation to particular products or activities, but may consider this in future.

The Trustee does not explicitly consult members when making investment decisions but the Trustee regularly updates members via newsletters and by making a copy of the Statement of Investment Principles and other documentation available on the Scheme website and members have a variety of methods to make their views known to the Trustee. This position is reviewed periodically.

12. Manager Arrangement Policies

12.1 How the arrangements with the investment managers incentivise the managers to align their investment strategy and decisions with the Trustee's policies

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 to manage. As part of this, to maintain alignment of the investment manager's investment strategy and decisions with the Trustee's own policies, the Trustee undertakes due diligence ahead of investing, and on an ongoing basis, to ensure it is aware of the:

- underlying assets held and how they will allocate between them;
- risks associated with the underlying mix of assets and the steps the investment manager takes to mitigate them;
- expected return targeted by the investment managers and details around realisation of the investment; and
- impact of financial and non-financial factors, including but not limited to ESG factors and climate change, on the investment over the long term.

Should an investment manager make changes to any of these or other relevant factors, the Trustee will assess their impact against its own policies and (where no longer aligned) consider what action to take to ensure alignment. If the Trustee's monitoring process reveals that an investment manager's investment strategy is not aligned with the Trustee's policies, the Trustee will engage with the investment manager to discuss how alignment may be improved. If, following engagement with the investment manager, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the arrangements with the investment manager will be reviewed and may be terminated.

The Trustee will look to its investment adviser, where appropriate, for its forward-looking assessment of the investment managers' ability to outperform over a full market cycle. The investment adviser's views assist the Trustee in its ongoing monitoring of the investment managers.

The Trustee selects the Scheme's investment managers with an expectation of a long-term appointment, although the legal terms of the contracts may provide for different durations according to asset class.

The Trustee invests in pooled investment vehicles and therefore accepts that it has no ability to specify the risk profile and return targets of the investment managers, but believes that appropriate mandates can be selected (and be subject to ongoing review) to align with the Trustee's overall investment strategy. The Trustee relies on its investment advisor's due diligence and quarterly monitoring to assess whether each mandate's risk profile and return targets are aligned with the Trustee's overall investment strategy. If, following ongoing monitoring of a mandate, it is the view of the Trustee that the mandate no longer aligns with the overall investment strategy the Trustee will look to its investment advisor to advise on the review, and possible replacement of the investment manager.

The Trustee reviews the suitability of investment objectives and guidelines, of the Scheme's pooled investment funds, to ensure that they are considered appropriate. Where bespoke mandates are used, the Trustees may set explicit guidelines within the investment management agreement where it is appropriate to do so.

12.2 How the arrangements incentivise the manager to make decisions based on assessments of medium to long-term performance of an issuer and to engage with the issuer of debt or equity in order to improve their performance in the medium to long-term

As noted above, the Trustee appoints investment managers with an expectation of a long-term partnership. The focus of performance assessments is on longer-term outcomes so the Trustee would not ordinarily expect to terminate a manager's appointment based purely on short-term performance.

The Trustee meets with each investment manager as deemed appropriate, to discuss performance and other investment related matters (including integration of ESG and climate change into the investment process and voting and engagement activities). As part of this, the Trustee will challenge decisions that appear out of line with the Scheme's stated objectives and/or policies.

The Trustee monitors the extent to which its pooled investment managers:

- make decisions based on assessments about medium to long-term performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

In each case this is done to the extent to which it is appropriate and proportionate to do so.

To assist with the processes outlined above, the Trustee considers its investment adviser's assessment of how each investment manager embeds ESG considerations into its investment process and explores how it aligns with its responsible investment policy. Specifically, the Trustee recognises that the equity portfolios managed by Stewart Investors and Impax Asset Management, which are sustainability mandates, will tend to hold stocks with the expectation of holding them on a long-term basis; and the approach to investing in corporate bonds within the matching assets is consistent with maintaining long term positions.

Each investment manager is aware that its ongoing appointment is based on its success in delivering the mandate for which it is appointed over the long term, and remunerated as agreed. Consistent periods of underperformance could lead to arrangements being altered or the appointment of the investment manager being terminated.

12.3 How the method (and time horizon) of the evaluation of the manager's performance and the remuneration for asset management are in line with the policy of the Trustee

The Trustee receives reports on investment manager performance on a quarterly basis, which present performance information over a range of time periods. The Trustee reviews absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and performance against the manager's stated target (over various time periods), on a net of fees basis. The Trustee's focus is primarily on long-term performance but short-term performance is also reviewed.

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.

12.4 How the Trustee monitors portfolio turnover costs and how they define and monitor it

The Trustee will monitor portfolio turnover costs as part of its ongoing monitoring of the investment managers.

The Trustee will engage with a manager if portfolio turnover is higher than expected. This may be assessed by comparing portfolio turnover across the same asset class on a year-on-year basis, or relative to the manager's expected portfolio turnover range in the investment guidelines or prospectus.

12.5 Duration of arrangement with Managers

As the Trustee is a long-term investor, it appoints investment managers with an expectation of a long-term partnership. The focus of performance assessments is on longer-term outcomes so the Trustee would not ordinarily expect to terminate a manager's appointment based purely on short-term performance. The legal terms will vary from manager to manager.

Where the Scheme invests with a manager, the Trustee expects to retain the manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

For investment in a closed-ended vehicle with an investment manager, the Scheme is invested for the lifetime of the strategy (which is disclosed to the Trustee at point of investment).

13. Compliance with this Statement

The Trustee monitors compliance with this Statement annually. The Investment Managers will notify the Trustee promptly of any breach of its investment management responsibilities as set out in their respective investment management agreements and in the Statement. The Trustee shall provide the Investment Managers with the Statement from time to time to enable them to seek to discharge their responsibilities pursuant to Sections 35 and 36 of the Act.

14. Review of this Statement

The Trustee 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 an Investment Consultant, who the Trustee reasonably believes to be qualified by its ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Name: Heather Mawson

……………………………..…. Signature

Name: Jonathan Ferns

……………………………..…. Signature

Signed on behalf of UMSS Limited, the Trustee of the University of Manchester Superannuation Scheme