

Summary of Investment Arrangements – June 2017

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

The overall target allocation of the Scheme's assets is to be invested around **35%** to **Equities**, **35%** to **Growth Fixed Income Assets** and **30%** to **Matching Assets** as detailed in the table below.

Asset Class	Target Allocation %	Normal Ranges %
Equities	35	25 – 45
Growth Fixed Income Assets	35	25 – 45
Matching Assets	30	20 – 40
Total	100	

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. These are labelled "(E)" in section 3.

Growth Fixed Income Assets (or cashflow generative assets) are those that typically generate inflation-linked cashflows, similar to the Scheme's liabilities, but also offer a yield above gilts. These include high yield bonds, emerging market debt, private debt, European loans, real estate debt, and secured income property. These are labelled "(GFI)" in section 3.

Matching Assets (or defensive assets) are those that share some characteristics with the liabilities. These include liability driven investments (LDI) and cash. These are labelled "(M)" in section 3.

There is no automatic rebalancing between the various asset classes. The Investment Committee will keep the Scheme's overall asset allocation and exposure to Alternative Assets 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 and dependent on market conditions.

3. Day to day management of the assets

Assets are diversified between **Mainstream Assets** and **Alternative 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 Mainstream Assets

3.1.1 Legal & General

The Trustee delegates the day to day management of the majority of the Scheme's mainstream assets to Legal & General Investment Management Limited (LGIM), who invest the assets in the following pooled funds:

- World Developed Equity Index (Unhedged and Currency Hedged Funds) **(E)**
- LDI portfolio (a number of pooled funds) **(M)**
- Sterling Liquidity and Cash Funds **(M)**

The allocation between the various pooled funds is kept under review.

3.1.2 Property (GFI)

Exposure to property is held via the Secured Property Income Fund managed by M&G Investments, the LPI Income Property Fund managed by Legal & General Investment Management (LGIM) and the Lime Property Fund managed by Aviva Investors.

The objective of the Secured Property Income Fund and LPI Income Property Fund is to deliver low risk, long term income with a high degree of inflation linked rents.

The focus of the Lime Property Fund is to generate long-term security of cash flow gained through investment in assets let to the public sector and good quality corporate tenants.

A number of other managers have been appointed in respect of the **Alternative Assets** held.

3.2 Alternative Assets

The Trustee has agreed to invest a maximum of up to 50% of the Scheme's assets in **Alternative Assets**, which includes hedge funds, private equity and higher yielding assets (such as real estate debt, high yield bonds, secured loans, and emerging market debt). Investments in these areas will be made when opportunities arise.

3.2.1 Hedge Funds (GFI)

In the past the Trustee invested a fund of hedge funds, with Goldman Sachs Asset Management. The Trustee has instructed that the assets be disinvested.

3.2.2 Private Equity (E)

The Trustee invests in two private equity funds, managed by Goldman Sachs Asset Management and Schroder, in fund of funds vehicles. Both private equity funds focus on achieving long term capital growth by investing in a portfolio of private equity funds. The Trustee has made an additional investment in Secondary Private Equity. This commitment was made in a fund of funds vehicle managed by Goldman Sachs Asset Management.

3.2.3 Secured Loans (GFI)

An allocation to secured loans has been made by the Trustee via the M&G European Loan Fund. The Fund principally invests in a diversified portfolio of loans, which is debt issued by companies, typically to finance internal growth, acquisitions, mergers and leveraged buy-outs.

3.2.4 Real Estate Debt (GFI)

The Trustee accesses Real Estate Debt through:

- M&G via the Real Estate Debt Funds I, II and III
- LaSalle through their Real Estate Debt Strategies II Fund
- ICG-Longbow through their UK Real Estate Debt Investments III Fund
- Goldman Sachs via the Broad Street Real Estate Credit Partners II Fund
- Morgan Stanley through their North Haven Credit Partners II Fund and
- 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 Western European commercial property market, whereas ICG-Longbow are focused on the UK market.

Morgan Stanley and Goldman Sachs' funds aim to offer attractive risk adjusted returns through portfolios of debt investments, primarily focused on mezzanines and other such instruments.

3.2.5 High Yield Bonds (GFI)

The Trustee invests in the LGIM High Yield Bond Fund, which aims to outperform the Merrill Lynch Global High Yield BBB 2% Constrained ex Financial (fully hedged) Index.

3.2.6 Emerging Market Debt (GFI)

The Trustee invests in the Pictet Emerging Local Currency Debt fund, an active fund which aims to outperform the JP Morgan GBI-EM Global Diversified Composite.

3.2.7 Renewable Energy (E)

An allocation of the Scheme's assets is also made to the NTR Renewable Energy Fund, managed by BlackRock. The strategy gives an equity exposure to investment in solar panel and onshore wind assets in Europe and North America.

4. Additional Assets

Separate from the Mainstream and Alternative Assets above, the Trustee may from time to time hold insurance policies or other assets, which are earmarked for the benefit of certain members. These may include for example:

- assets secured by Additional Voluntary Contributions (AVCs) or other arrangements made individually with the Trustee;
- deferred or immediate annuity policies purchased to match part or all of the Scheme liabilities.

Assets in respect of some deferred members' AVCs are invested in with-profits accounts with the Equitable Life Assurance Society and Aviva.

In addition, the Scheme holds cash to meet short-term requirements and this cash is managed by the University's Director of Finance.

5. Advisors

5.1 Custodian

The role of a custodian is to ensure the safe keeping 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 managers relating to the **Alternative Assets** operate a performance related element.
