

Statement of Investment Principles – June 2017

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 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 (the "OPS IRegs 05") and the Myrers 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 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 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.

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.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management 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 recognises that whilst increasing risk increases potential returns over a long period, 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.
- 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 a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The managers are prevented from investing in asset classes out with their mandate without the Trustee's prior consent.
- 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. 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).

Should there be a material change in the Scheme'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 **Mainstream Asset** classes of equities, property, bonds and cash and there is also exposure to **Alternative Assets** such as hedge funds, private equity and higher yielding assets.
- 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 investment in UK Government debt.
- Investment in alternative investments, such as hedge funds, private equity and higher yielding assets, may be held as long as they do not exceed 50% of the Scheme's total assets. The Trustee does not include the current allocation to property within the definition of **Alternative Assets**.
- Investment in derivatives is permitted within pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management.
- 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 the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustee will ensure that the assets of the Scheme are predominantly invested on regulated markets.
- No investment is permitted in securities issued by the University, 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.

6. Investment Strategy

Given the investment objectives the Trustee has agreed to implement an investment strategy that allocates 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.

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.

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

The Trustee believes that the investment risk arising from the investment strategy and the risks arising from the holdings in **Alternative Assets** 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 instruct the investment managers to implement any changes to the asset mix, within the normal ranges set out above, that it deems appropriate. The Investment Committee will also keep under review the Scheme's investments in **Alternative Assets** and has delegated authority from the main Trustee board to implement changes 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 **Alternative 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 available to members upon request.

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 over the short term performance may deviate significantly from the long term target.

9. 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.

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. Socially Responsible Investment (SRI)

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. 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.

With this knowledge, the Trustee has given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Scheme's investments.

Similarly, the Scheme'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.

12. Corporate Governance

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 LGIM. The Trustee has however reviewed the voting policies of LGIM and is comfortable with the arrangements in place. The Trustee also monitors voting activity via the quarterly reports received from LGIM.

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 JON FERNS Signature J. D. Ferns

Name HEATHER MAWSON Signature Heather Mawson

Date 19 June 2017

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