

Aston University Pension Scheme

Statement of Investment Principles

This is the Statement of Investment Principles (the “Statement”) made by the Trustees of the Aston University Pension Scheme (“the Scheme”) in accordance with the Pensions Act 1995 (as amended). The Statement is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustees have consulted with the Aston University (“the Sponsor”) and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Scheme is a defined benefit scheme which is closed to further accruals and new members.

The Trustees are aware of the Myners Code of Conduct for Investment Decision Making and has reviewed their responsibilities and activities in the context of the Code.

The Trustees are supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustees expect investment managers to comply with the code and to produce a statement of their commitment to the code.

Scheme objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustees’ over-riding funding principles for the Scheme are to set the employer contribution at a level which is sufficient:

- to build up assets to meet the cost of benefits already built up in respect of past service;
- to recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- to ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The value of liabilities is calculated on the basis agreed by the Trustees and the Scheme Actuary. The funding position is monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

Investment strategy

The Trustees have translated their objectives into a suitable strategic (asset allocation) benchmark for the Scheme. The strategic benchmark is consistent with the Trustees’ view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests as well as the benchmarks in place for individual investment managers which, in aggregate, are consistent with the overall strategy.

The investment strategy takes account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active-deferred members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustees’ view of the covenant of the Sponsor.

The Trustees monitor strategy relative to their agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme and may be reviewed annually on a light touch basis as and when appropriate. Written advice is received as required from professional advisers.

The Trustees monitor the performance of Scheme investments relative to agreed criteria on a regular basis.

The Trustees have delegated all day-to-day investment decisions to authorised investment managers.

Choosing investments

The Trustees have appointed three investment managers to manage Scheme investments. All three investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustees, after taking appropriate advice, have given the investment managers specific guidelines including, but not limited to, asset allocation and geographic spread, on how investment mandates are to be managed. The investment managers are allowed some flexibility of choice subject to their benchmarks and other guidelines and are expected to maintain diversified portfolios.

The Trustees have also decided to invest in a number of individual pooled funds. The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity. The Trustees also evaluate the objectives of the fund and the policies of the investment manager to ensure that they are appropriate for the needs of the Scheme on an ongoing basis.

The Trustees have appointed each of the Scheme's investment managers to deliver a specific benchmark or performance target, which overall will align to deliver the broader Scheme investment strategy. The Trustees ensure that all manager engagements have clearly defined benchmarks, objectives or management parameters.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. The Trustees periodically review the fees paid to the Scheme's managers against industry standards.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustees periodically review the fees paid to all of its managers against industry standards.

The Trustees review the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustees seek and consider written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Trustees recognise the long-term nature of the Scheme's liability profile and appoints managers to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme's objective.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of

appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years. This being the period over which performance of the mandate can be appropriately evaluated, although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

The Trustees undertake a periodic service provider review in which the ongoing appropriateness of the Scheme's manager arrangements are considered. The Trustees review the performance of each of the Scheme's managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed. For close-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

The Trustees review the performance of each manager and mandate on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers), and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

The Trustees monitor the managers' performance against their respective benchmarks or targets on a regular basis over a long-term time horizon. Managers are expected to provide explanation for any significant deviations away from benchmarks or targets.

Kinds of investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, leveraged and non-leveraged gilt funds either directly or through pooled funds.

The Scheme may also make use of contracts of insurance, derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Scheme.

Balance between different kinds of investments

The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market each manager will maintain a diversified portfolio of stocks.

Risks

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

Funding risks

- Financial mismatch – The risk that Scheme assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of the Scheme benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustees measure and manage financial mismatch in two ways. As indicated above, the Trustees have set a strategic asset allocation benchmark for the Scheme. The Trustees assess risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. The Trustees also assess risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

The Trustees keep mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustees may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

The Trustees seek to mitigate systemic risks through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration – The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Scheme's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk – The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustees manage asset risks as follows. The Trustees provide a practical constraint on Scheme investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters.

By investing across a range of assets, including quoted equities, bonds (and possibly in the future bulk annuity policies), the Trustees recognise the need to access funds in the short term to pay benefits. The risk of manager underperformance is mitigated by the inclusion of passive investment mandates within the investment portfolio.

In appointing three investment managers, the Trustees have considered the risk of underperformance by any single investment manager.

The Trustees do not expect managers to take excess short-term risk and will regularly monitor the managers' performance against the benchmarks and objectives set on a short, medium and long terms basis.

The Trustees' approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- Transition risk – The risk of incurring unexpected costs in relation to the transition of assets among managers.
- Custody risk – The risk of loss of Scheme assets when held in custody or when being traded.

- Credit default – The possibility of default of a counterparty in meeting its obligations.
- Operational risk – The risk of loss as a result of fraud, cyber-attacks, poor advice, acts of negligence or lack of suitable process.
- Legislative risk – The risk that managers of the Scheme fail to comply with changes to legislation.

The Trustees monitor and manage risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Scheme by the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustees seek professional advice.

Expected return on investments

The investment strategy aims to achieve a return on Scheme assets, which taken in conjunction with contributions is sufficient over time to match growth in the Scheme's pension liabilities.

Realisation of investments

The majority of the Scheme's investments may be realised quickly if required. The allocation to high yield credit and private lending, which currently represent approximately 10% but are expected to comprise up to approximately 20% of the Scheme's portfolio upon completion of investment with Pantheon, may be difficult to realise quickly in certain circumstances.

Portfolio turnover

The Trustees have expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period.

The Trustees will challenge the Scheme's managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive. The Trustees will request turnover costs incurred by the asset manager over the Scheme reporting year.

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. The Trustees further recognise that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others.

The Trustees will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will require that their investment managers take such considerations into account within their decision making.

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 other than climate change. The Trustees are targeting sustainable returns over the longer term by encouraging the managers to implement views which extend over the duration of the liabilities.

The Trustees meet with the Scheme's investment managers regularly, and the managers are expected to address manager performance and company engagement. Managers will be challenged on their approach where

this is not aligned to the Trustees' policies. The Trustees expect the investment managers to take all financially material factors into account where relevant and the terms of the mandate permit.

- In passive mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal discretion to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the market and believe this approach is in line with the basis on which their current strategy has been set.
- In active mandates, the Trustee recognises that the manager has freedom to exercise discretion as to the choice of assets held. The Trustee expects the manager to take into account all financially material factors in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

Given the inherent uncertainty associated with climate change and relatively short investment horizon of the Scheme, the Trustee has not sought to explicitly consider the risks of climate change in setting its strategic benchmark or implementing its strategy. However, the Trustee periodically discusses climate change with its investment adviser and investment managers to consider the potential implications for the Scheme's investments. More broadly, ESG factors are considered as follows:

- The Trustees acknowledge the financial risks of climate change and the expected transition to a low carbon economy and they encourage their managers to implement views which takes these risks into account.
- Given the discretion delegated to the active investment managers, the Trustees expect that their investment managers will take account of all financially material factors including the potential impact of ESG factors on their mandates.
- The Trustees have discussed the extent to which ESG issues, where relevant to the investment mandate, are integrated into the investment processes of their investment managers.

The Trustees will review the index benchmarks employed for the Scheme on at least a triennial basis.

In selecting new investment managers, reviewing strategies or appropriate indices, the Trustees explicitly consider potential managers' approaches to responsible investment and the extent to which they integrate ESG issues in the investment process as a factor in their decision making.

The Trustees are satisfied that the investment managers are following an approach which takes account of all financially material factors.

Consideration of non-financially material factors in investment arrangements

Given the objectives of the Scheme, the Trustees do not impose any restrictions or exclusions to the investment arrangements based on non-financially material factors.

Stewardship and monitoring

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

The investment managers should use engagement with company management for positive influence as opposed to divestment from companies unaligned with the Scheme's objectives.

The Trustees do not engage directly but believe it is sometimes appropriate for its investment managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment managers as part of its broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

The Trustees will regularly review engagement activity including voting undertaken by their investment managers.

Monitoring

The Trustee aims to meet with all its investment managers on an annual basis. The Trustees provide its managers with an agenda for discussion, including, where appropriate, ESG issues. Managers are challenged both directly by the Trustees and by the investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Investment Managers report on voting activity to the Trustee at least annually, or more frequently if required, where the information is available. As required, the Trustees will monitor managers voting activity and voting patterns. The Trustees may also monitor managers' voting on particular companies or issues affecting more than one company.

Additional Voluntary Contributions (AVCs)

The Trustees closed the AVC arrangement to new contributions in January 2012.

Signed For and on Behalf of the Trustees of the Aston University Pension Scheme

Chair of Trustees

Date