

# **University Of Southampton Pension and Assurance Scheme for Non-Academic Staff**

**Statement of Investment Principles**

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## 1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustees of the University Of Southampton Pension and Assurance Scheme for Non-Academic Staff (the Scheme). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the Statement of Investment Principles requirements of:
  - the Pensions Act 1995, as amended by the Pensions Act 2004;
  - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
  - the Occupational Pension Schemes (Charges and Governance) Regulations 2015, incorporating changes as required by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
  - The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustees have consulted the University of Southampton, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.5. The Trustees' investment powers are set out in Section 13.10 of the Definitive Trust Deed & Rules, dated 25 July 1999. This statement is consistent with those powers.

## 2. Choosing investments

- 2.1. The Trustees' policy is to set the overall investment strategy and then monitor the performance of their managers against that strategy. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the employer before amending the investment strategy.

### **3. Investment objectives**

- 3.1 The Trustees will ensure that their investment policy is such that in all circumstances there will be sufficient levels of cashflow available to meet known benefit outgoings.
- 3.2 The Trustees aim to achieve real investment returns over the medium and long term, reflecting the liabilities of the Scheme and being consistent with the relevant assumptions made by the actuary in actuarial valuations. The Trustees appreciate this may lead, in the short term, to a degree of volatility in value of the assets held.
- 3.3 The Trustees will attempt to ensure that their investment policy maintains their solvency objectives (the objectives which relate to the relationship between the present value of assets and liabilities accrued to date), after having taken into account as one factor their knowledge of the funding objectives agreed between the Employer and the Scheme Actuary.
- 3.4 In recognition of the fact that the Employer is responsible for the long-term financing of the Scheme, the Trustees will attempt to follow a policy which, to the extent that it does not conflict with the above objectives:
  - Constrains the funding costs to the greatest extent possible;
  - Takes into account the desirability of some stability in the contribution rate.
- 3.5 By taking investment risk, the Trustees also recognise the possibility that the Scheme will have insufficient assets to cover the liabilities at the date of a triennial Actuarial Valuation. In these circumstances, the Trustees are relying on the Employer to pay sufficient contributions over a period of time to cover any deficits which are disclosed.
- 3.6 The Trustees recognise the different types of risk facing the Scheme and seek to minimise them as far as possible by regular monitoring of the performance of the investment managers, seeking advice from the investment consultants on the suitability of the assets with regard to the Scheme's liabilities, and ensuring that the investment managers maintain suitably diversified portfolios of investments across asset classes, geographical regions and economic sectors.

### **4. Kinds of investments to be held**

- 4.1. The Scheme can invest in a wide range of assets. The appendix to the Statement sets out the mandates that the Trustees have chosen to utilise at the date of this Statement.
- 4.2. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.
- 4.3. The Trustees will hold cash to the extent that they consider it is necessary to meet impending anticipated liability outflows or changed investment allocations. A bank account or cash fund is used to facilitate the holding of cash awaiting investment or payment.
- 4.4. Currently there is no directly held employer-related investment as defined by Section 40 of the Pensions Act 1995 and the Trustees do not envisage any change in this respect in the foreseeable future.

## 5. The balance between different kinds of investments

- 5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.
- 5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.
- 5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

## 6. Investment restrictions

- 6.1. The investment managers' mandates include various restrictions relating to the manner in which they may manage assets, as follows:
- 6.2. Direct investment in any company significantly involved in the tobacco industry is not permitted. Where the Scheme invests in pooled funds, it may hold investments in tobacco companies.
- 6.3. Borrowing, or committing the fund to supplementing its assets (except for partly paid securities and derivatives), is not permitted without prior Trustee consent.
- 6.4. No more than the lower of 2.5% of the Scheme's assets or £750,000 may be placed on deposit with any one institution.
- 6.5. Stock lending is not permitted.

## 7. Risks

- 7.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

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### **Risk versus the liabilities**

The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

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### **Covenant risk**

The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

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### **Solvency and mismatching**

The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different to their chosen strategy.

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<b>Asset allocation risk</b>	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
<b>Investment manager risk</b>	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
<b>Concentration risk</b>	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
<b>Liquidity risk</b>	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme 's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
<b>Currency risk</b>	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
<b>Loss of investment</b>	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).
<b>Governance risk</b>	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor this and will report on the managers' practices in their annual Implementation Statement.
<b>Environmental, Social and Governance ("ESG") Factors, including climate risk</b>	The Trustees have considered long-term financial risks to the Scheme and consider ESG factors, including (but not limited to) climate risk, as financially material across some asset classes and strategies. The Trustees will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

## 8. Expected return on investments

- 8.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers, within a restricted mandate around asset classes for each fund manager type.
- 8.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 8.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 8.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's investment managers as frequently as is appropriate in order to review performance.

## 9. Realisation of investments

- 9.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.
- 9.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

## 10. Financially material considerations, non-financial matters, the exercise of voting rights and engagement activities

- 10.1 The Trustees have set policies in relation to these matters. These policies are set out in Appendix 1.

## 11. Policy on arrangements with asset managers

### Incentivising alignment with the Trustees' investment policies

- 11.1. Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.
- 11.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, then they will consider using another manager for the mandate.
- 11.3. The Trustees carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

- 11.4. In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated in a reasonable timeframe.
- 11.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager when relevant.

### **Incentivising assessments based on medium to long term, financial and non-financial considerations**

- 11.6. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees acknowledge this in their investment management arrangements.
- 11.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.
- 11.8. The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

### **Method and time horizon for assessing performance**

- 11.9. The Trustees monitor the performance of their investment managers over medium to long term periods.
- 11.10. The Scheme invests solely in pooled funds. The investment managers are remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.
- 11.11. The Trustees believe that this fee structure, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.
- 11.12. The Trustees ask the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

### **Portfolio turnover costs**

- 11.13. The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.
- 11.14. During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. Where underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.



### **Duration of arrangement with asset manager**

- 11.15. For the pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.
- 11.16. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review, the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

## **12. Agreement**

- 12.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Scheme auditor upon request.

# Appendix 1 Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

## 1. Financially material considerations

The Trustees consider that factors such as ESG issues (including but not limited to climate change) across some asset classes and strategies will be financially material for the Scheme over the medium and long-term. The Scheme is still open to accrual and the Trustees have set objectives of achieving real investment returns over the medium and long-term and ensuring there are sufficient levels of cashflow available to meet known benefit outgo.

The Trustees have a long-term time horizon over which it takes into account ESG factors. The Trustees have a policy to consider ESG factors, alongside other factors, when selecting or reviewing the Scheme's investments and will be proportionate in their approach.

The Trustees will be reliant on the information presented by the investment manager and their investment advisors regarding the extent to which an investment manager allows for ESG in making their investment decisions. Furthermore, an investment manager's excellence in this area will not take precedence over other factors, including (but not limited to) historical performance or fees.

The Trustees have elected to invest the Scheme's assets through a combination of pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant and allows the Trustees to implement their ethical views on the Scheme's strategy. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustees take those factors into account in the selection, retention and realisation of investments as follows:

**Selection of investments:** assess the investment managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

**Retention of investments:** Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

**Realisation of investments:** The Trustees will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustees will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Scheme's investments.

The Trustees will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustees will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;

- As part of ongoing monitoring of the Scheme's investment managers, the Trustees will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- Through their investment consultant the Trustees will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

## 2. Non-financially material considerations

The Trustees believe their duty is to act in the best financial interests of the Scheme's beneficiaries, and they have not made any specific provision themselves for social, environmental or ethical considerations to be taken into account, other than the exclusion of direct investment in tobacco companies.

## 3. The exercise of voting rights

The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustees will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

## 4. Engagement activities

The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, including climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

Through their consultation with the University when setting this Statement of Investment Principles, the Trustees have made the University aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented.

## 5. Stewardship Policy

As stewards of the Scheme's investments, the Trustees have a responsibility that those investments should lead to sustainable benefits for the economy, the environment and society.

The Trustees' stewardship policy is implemented by focusing on three stewardship priorities, which have been chosen to reflect the best long-term interests of Scheme members. The Trustees have also confirmed that these priorities align closely with the University's own values. These three stewardship priorities are:

- Environment and Climate
- Diversity and Inclusion
- Strong Governance and Business Ethics

The Scheme's asset managers have been informed of these priorities. The Trustees will monitor the stewardship activity of the managers in these areas going forwards on an annual basis, by considering their voting and engagement activity in the implementation statement.