University of Nottingham Contributory Pension and Assurance Scheme

Statement of Investment Principles – March 2024

1. Introduction

The Trustee of the University of Nottingham Contributory Pension and Assurance 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. It also meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 as well as taking into account the principles underlying the Investment Governance Group's Code of Best Practice for pension scheme investment.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments.

In preparing this Statement the Trustee has consulted the University of Nottingham (the Principal Employer) to ascertain whether there are any material issues of which the Trustee should be aware of in agreeing the Scheme's investment arrangements.

2. Process For Choosing Investments

The Trustee's process for choosing investments is as follows:

- Identify appropriate investment objectives.
- Agree the level of investment return expectation consistent with meeting the objectives set.
- Construct a portfolio of investments that is expected to achieve the return expectation (net of all costs) with the minimum degree of risk.

In considering the appropriate investments for the Scheme the Trustee has obtained and considered the written advice of Mercer Limited ("Mercer"), who are regulated by the Financial Conduct Authority ("FCA") and 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. Governance

The Trustee considers that they have the skills, information and resources to evaluate critically the advice which they receive on the Scheme's strategic asset allocation and investment managers to decide an effective strategic asset allocation and investment manager structure for the Scheme.

The Trustee has appointed Mercer as actuary and investment consultants. Mercer's performance is assessed regularly by the Trustee.

The agreements between the Trustee and Mercer do not form part of this Statement but are contained in separate documents.

4. Investment Objectives

The Trustee's overriding objective is to invest the Scheme's assets in the best interest of the members and other stakeholders and, in the case of a potential conflict of interest, in the sole interest of the members. Within this framework, the Trustee's primary aim is to ensure all benefits are paid when they fall due.

Over the longer term, the Trustee would like to adopt a 'self-sufficiency' approach whereby the Scheme's assets are less risky and there is a reduced probability of a funding deficit opening up in the future. The Trustee does not have automated de-risking triggers in place, however has agreed with the University that once the Scheme achieved full funding on a low risk target (gilts+0.6% p.a.), the Scheme will reduce risk in the investment strategy further. The exact asset allocation will be considered at the time. However it is expected this portfolio will target best estimate expected returns including a margin above gilts + 0.6% p.a. consistent with achieving the Scheme's funding objectives.

The Trustee is comfortable that the strength of the covenant offered by the University means that they can take a degree of risk in the portfolio over the longer term and receive advice on the strength of the covenant.

5. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee has considered the following risks:

- The risk of deterioration in the Scheme's funding level.

- The risk that the appointed investment managers, in the day-to-day management of the assets, will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active management involves such a risk. However, the Trustee believes that this risk is outweighed by the potential gains from successful active management in certain asset classes.

- The Trustee recognises that whilst increasing risk increases potential returns, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as increasing volatility in the Scheme's funding position. The Trustee takes advice on the matter and (in light of the objectives noted in Section 4) carefully consider the implications of adopting different levels of risk.

- 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.

- The documents governing the investment managers include a number of guidelines which are designed to ensure that only suitable investments are held by the Scheme. The investment managers are not authorised to invest in asset classes outside of 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 the investment consultant.

- 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. However, the Trustee is long term investors and are not looking to change the investment arrangements on a frequent basis.

Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee's focus is on long term performance but will put a manager 'on watch' if there are short term performance concerns.

6. Investment Strategy

The Trustee will target an expected return of around 2% pa above the return available on a portfolio of gilts matching the Scheme liabilities. The target asset allocation associated with this as at March 2024 is recorded in the appendix to this statement.

Due to the liquidity of the underlying assets the Trustee expects the transition to the updated strategic allocation to be completed in Q3 2024. Until this point, actual allocations may differ from the targets noted above.

Whilst the Trustee does not have strict control ranges, the Scheme's asset allocation is monitored regularly and will be rebalanced towards the strategic benchmark as deemed necessary.

The Trustee will review the level of interest rate and inflation hedging regularly, however at the time of this statement the target level of hedging is 80% of liabilities valued on a gilts+0.6% p.a. basis. As with the target asset allocation, this may take some time to implement.

As discussed in section 4 of this statement, in the event that the Scheme reaches a 100% funding level on the long term funding basis ("gilts +0.6%") the Trustee will implement a lower risk basis while maintaining sufficient return expectation to be consistent with the funding objectives.

7. Expected Return on Investments

The expected return on investments will be in line with the target investment strategy which is set to support the technical provisions discount rate and is aligned with the Trustee's long term funding target.

8. Day-to-Day Management of the Assets

The Trustee delegates the day-to-day management of the assets to the investment managers. The Trustee has taken steps to satisfy themselves 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 reviews the continuing suitability of the Scheme's investments as well as the appointed managers. Any adjustments will be done with the aim of ensuring the overall level of risk and return is consistent with that being targeted.

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 being selected for.

As the Trustee invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

9. Additional Assets

Additional Voluntary Contributions ("AVCs") are not separately invested and accordingly form part of the total investments. Members' AVCs provide benefits for added years, on a final salary basis. Members' participation in this arrangement receive an annual statement containing their units and valuation. This facility was stopped with effect 31 August 2006 – the current arrangement available to all members is to make AVCs via the Contributory Retirement Savings Plan.

10. Realisation of Investments

In general, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments.

11. Rebalancing

The Trustee monitors the allocation between the appointed managers and between asset classes and will rebalance the portfolio as and when necessary.

12. Manager Selection and Retention

In line with previous sections of this SIP, 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 the Trustee has appointed them for.

For active mandates, the Trustee looks to their investment consultant for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustee will review the Scheme's appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives. Some appointments are actively managed and the managers are incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance or significant outperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) each year.

As the Trustee invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.

The Trustee's focus is on long term performance but may put a manager 'on watch' if there are short term performance concerns. If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review their fees.

The Trustee asks investment managers to include portfolio turnover and turnover costs in their presentations and reports to the Trustee. The Trustee will engage with a manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus.

The Trustee is long term investors and are not looking to change the investment arrangements on a frequent basis. There is no set duration for the manager appointments. The Trustee will retain an investment manager unless:

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

- The manager appointment is reviewed and the Trustee decides to terminate for a more suitable appointment.

13. Responsible Investment

The Trustee believes that environmental, social, and corporate governance (ESG) factors 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 recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration. Therefore the Trustee considers these issues in the context of its broader risk management framework. Trustee believes that clear expectations of investment managers and advisers should be set regarding ESG incorporation, where these issues are well understood and known to have relevance to investment outcomes. The Trustee decided to invest in an ESG focussed global equity mandate which is intended to be implemented in April 2022

The Trustee's policy is that day-to-day decisions relating to the investment of Scheme assets is left to the discretion of its investment managers. This includes consideration of all financially material factors, including ESG-related issues where relevant.

The Trustee has also given the appointed investment managers full discretion when undertaking stewardship activities, including voting and engagement, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee will consider the investment consultant's and ESG advisor's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment approach. This includes the investment managers' policy on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

Mercer provides the Trustee with ESG ratings for the strategies they invest on a quarterly basis. The Trustee will engage with its investment managers on the key findings as necessary, particularly where a manager is judged to be lagging its peers. Starting in 2021 the Trustee will formally review the investment managers' stewardship activities, including voting and engagement (where applicable), on an annual basis.

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.

Members have a variety of methods by which they can make views known to the Trustee the Trustee takes these into account when they deem it appropriate to do so. The ESG policies of the University are also considered when agreeing the Trustee's ESG policies. This position is reviewed periodically.

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 someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed on behalf of the Trustee of the University of Nottingham Contributory Pension and Assurance Scheme.

Signed: ____________________________ Date: ________________________

Name: ____________________________

Signed: ____________________________ Date: ________________________

Name: ____________________________

Appendix

Asset allocation target as at the date of this statement

The table below sets out the asset allocation target as at the date of this statement, the Trustee will review this asset allocation from time to time and may vary from it according to conditions in markets, scheme funding or the investment managers.

Asset Class	Allocation (%)
Global Equity	17.5
Infrastructure	10.0
Absolute Return	5.0
Multi-Asset Credit	12.5
Diversified Alternatives	5.0
Corporate Bonds	10.0
LDI	40.0
Total	**100.0**

The target manager allocation as at the date of this Statement is as follows:

Asset Class	Investment Manager	Allocation (%)
Global Equity	BlackRock	17.5
Infrastructure	JPM	10.0
Absolute Return	Ruffer	5.0

Multi-Asset Credit	M&G	12.5
Diversified Alternatives	LGT	5.0
Corporate Bonds	BlackRock	10.0
LDI	BlackRock	40.0
Total		**100.0**