University of Reading Employees’ Pension Fund

Statement of Investment Principles – June 2019

1. Introduction

The Trustees of the University of Reading Employees’ Pension Fund ("the Fund") have 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 Fund’s investments.

In preparing this Statement the Trustees have consulted the University of Reading (the Principal Employer) to ascertain whether there are any material issues of which the Trustees should be aware of in agreeing the Fund’s investment arrangements.

2. Process For Choosing Investments

The Trustees’ 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 Fund the Trustees have obtained and considered the written advice of Mercer Limited ("Mercer"), who are regulated by the Financial Conduct Authority ("FCA") and whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Governance

The Trustees consider that they have the skills, information and resources to evaluate critically the advice which they receive on the Fund’s strategic asset allocation and investment managers to decide an effective strategic asset allocation and investment manager structure for the Fund.

The Trustees have appointed Mercer separately as actuary and investment consultants. Mercer’s performance is assessed regularly by the Trustees.
The agreements between the Trustees, the investment managers and Mercer do not form part of this Statement but are contained in separate documents.

4. **Investment Objectives**

The Trustees' overriding objective is to invest the Fund'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 Trustees' primary aim is to ensure all benefits are paid when they fall due. Over the longer term, the Trustees 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. It is proposed the portfolio will be invested a range of credit based asset classes, broadly designed to generate income to meet pension outgo as it falls due. The Trustees are 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 do not intend to move toward a 'lowest risk' portfolio which would be 70-100% invested in government bonds.

5. **Risk Management and Measurement**

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

- The risk of deterioration in the Fund'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 Trustees. The Trustees recognise that the use of active management involves such a risk. However, the Trustees believe that this risk is outweighed by the potential gains from successful active management in certain asset classes.

- The Trustees recognise that whilst increasing risk increases potential returns, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's accruing liabilities as well as increasing volatility in the Fund's funding position. The Trustees take 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 Trustees recognise 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 Trustees aim 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 Fund. The investment managers are not authorised to invest in asset classes outside of their mandate without the Trustees' prior consent.

- Arrangements are in place to monitor the Fund's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees
receive regular reports from the investment consultant on progress against the long term objective, cashflow requirements and the overall level of risk.

- The safe custody of the Fund’s assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Fund’s circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered.

6. Investment Strategy

The Trustees have adopted the strategic allocation shown below. Implementation, is due to be completed in 2019.

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

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Investment Manager</th>
<th>Benchmark Allocation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified Growth Fund</td>
<td>LGIM</td>
<td>10.0</td>
</tr>
<tr>
<td>Diversified Growth Fund</td>
<td>Invesco</td>
<td>10.0</td>
</tr>
<tr>
<td>HLV Property</td>
<td>LGIM</td>
<td>20.0</td>
</tr>
<tr>
<td>Buy &amp; Maintain Credit</td>
<td>BlackRock</td>
<td>20.0</td>
</tr>
<tr>
<td>Index Linked Gilts</td>
<td>BlackRock</td>
<td>40.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100.0</td>
</tr>
</tbody>
</table>

Key:
- HLV – High lease to value property
- DGF – Diversified Growth Fund
- B&M Credit – Buy & Maintain Corporate Bonds
- ILGilt – Index Linked gilts
The HLV Property mandate is illiquid and is not expected to be drawn until Q4 2019. Until then, the Trustees have allocated 20% of assets to a low risk absolute return bond fund with LGIM as an interim holding.

Whilst the Trustees do not have strict control ranges, the Fund’s asset allocation is monitored regularly and will be rebalanced towards the strategic benchmark as deemed necessary.

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 Trustees’ long term funding target.
8. **Day-to-Day Management of the Assets**

The Trustees delegate the day-to-day management of the assets to the investment managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Fund’s investments and that they are carrying out their work competently.

The Trustees review the continuing suitability of the Fund’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.

9. **Additional Assets**

Under the terms of the Trust Deed the Trustees are responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustees review the investment performance of the chosen providers on a regular basis and take advice as to the providers’ continued suitability.

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 Trustees monitor the allocation between the appointed managers and between asset classes and will rebalance the portfolio as and when necessary.

12. **Responsible Investment and Corporate Governance**

The Trustees believe that environmental, social, and corporate governance (ESG) factors may 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis by receiving updates from investment managers and by Mercer providing the Trustees with ESG ratings for the strategies in which the Fund invests.

The Trustees do not directly take account of member views when making investment decisions, however always aim to act in the best interest of members. The Trustees communicate with members via annual newsletters.
13. **Review of this Statement**

The Trustees 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 Trustees 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 Trustees of the University of Reading Employees' Pension Fund.

Signed: ____________________________ Date: 20/9/2019
Name: **Mark Taylor**

Signed: ____________________________ Date: 25/9/2019
Name: **Susan Mott**

Signed: ____________________________ Date: 26/9/2019
Name: **John Brady**