Statement of Investment Principles

Cardiff University Pension Fund

September 2020

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1. Introduction

1.1. What is the purpose of this Statement of Investment Principles ("SIP")?

This SIP sets out the policy of the Trustees on matters governing decisions about the investments of the Cardiff University Pension Fund (the "Scheme").

The Scheme is a Registered Pension Scheme for the purpose of the Finance Act 2004. The Scheme is a Defined Benefit ("DB") Scheme.

1.2. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 (the "Act") and all subsequent legislation, Regulations and guidance from the Pensions Regulator applying to UK pension schemes.

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed.

The Trustees operates an Investment Sub Committee ("ISC") to oversee Scheme matters relating to investment. The ISC Terms of Reference outline the powers delegated to the ISC by the Trustees.

1.3. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Actuarial LLP trading as Quantum Advisory ("Quantum"), the Trustees' investment adviser, and consulting Cardiff University (the "Sponsoring Employer") as required by the Act and subsequently by the Regulations. Quantum has the knowledge and experience required under the Regulations to provide professional advice on the management of the Scheme's investments.

2. Investment objectives and strategy

2.1. Investment policy

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed.

The Trustees are aware of the need to invest assets in the best and sole interest of the members and that the powers of investment must be exercised in a manner which supports the security, quality, liquidity and profitability of the Scheme as a whole.

The Trustees recognise that the assets of the Scheme must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must, in any event, be kept to a prudent level.

2.2. Investment objective

The Trustees, with the help of their advisers and in consultation with the Sponsoring Employer, set the current investment strategy following a consideration of its objectives and other related matters in March 2017.

The Trustees noted the need to invest in a manner which helps ensure that the benefits promised to members are provided. Over the long term, this requires that a rate of return is achieved which supports the long term funding plan which has been discussed with the Sponsoring Employer. In the short term, it means managing the volatility of assets relative to the value of liabilities, which have bond-like characteristics.

2.3. What risks were considered and how are they managed?

In order to achieve their objectives, the Trustees recognised the need to invest in both "liability matching" and "return seeking" assets (see 2.4). The Trustees identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that an investment manager will not meet its targets;
- the risk that the value of liabilities may increase due to changes in actual and expected inflation and interest rates;
- the risk of mis-match between the value and timing of the Scheme's income and outgo;
- the risk of a shortfall in the liquid assets held by the Scheme relative to its immediate liabilities;
- the risk that the performance of any single investment within the Scheme's assets may disproportionately affect the ability of the Scheme to meet its overall investment objectives
- the risk of misappropriation, unauthorised use or mis-delivery of Scheme assets; and
- the risk that ESG factors, including climate change, adversely impact the value of the Scheme's assets if this is not given due consideration and/or misunderstood.

The Trustees recognise these different types of risk and seeks to minimise them as far as possible by the use of regular monitoring of investment performance; by a deliberate policy of diversification; by taking into account the timing of future payments; and by regularly reviewing the appropriateness of the prevailing strategy against the Scheme's objectives.

2.4. What is the investment strategy?

The investment strategy uses two key types of assets:

- "matching assets": which exhibit characteristics similar to those of the Scheme's liabilities.

  These include:

  - "geared liability driven investment ("LDI"): which is designed to hedge some of the Scheme's assets against changes in inflation and interest rates while still allowing exposure to return seeking assets. An LDI manager has been appointed to manage the LDI strategy. The movement of collateral between the Scheme and the LDI manager, in order to maintain the LDI hedge, is controlled by the Trustees and advised upon by Quantum.
  - Corporate bonds: which provide some protection against changes in interest rates.
- "return seeking assets": which target a rate of return in excess of the minimum risk return. Typically, these are equities or a diversified pool of other non-matching assets which, over the long term, might be expected to deliver 3% to 4% pa above the minimum risk return.

Following the Scheme's actuarial valuation in August 2016, a strategic asset allocation was agreed. The strategy aims to deliver an appropriate mix of investments, which support the Scheme's investment objectives. Details of this are set out in Appendix 1.

The Trustee monitors the performance of the Scheme's investments on a quarterly basis. Written advice is received as required from its investment advisers.

It should be noted that; as part of the selection and review of investment managers for the strategy, the extent to which individual investment managers have in place appropriate policies and practices with respect to ESG has been considered. This specifically addresses **financially material considerations** (including, but not limited to, ESG (including climate change)) and **stewardship/voting policies**, and includes assessing screening practices and shareholder engagement, as well as a number of other areas. The Trustees also consider **non-financial factors**, when monitoring and selecting their investments. Further detail on these policies is provided in section 5.2.

2.5. Fund managers, style and target returns

The funds in which the Scheme invests are pooled funds, which the Trustees believe are appropriate given the size and nature of the Scheme. Details of the funds, managers, styles, benchmarks and target returns used by the Scheme can be found in Appendix 1.

2.6. Currency hedging

Where reasonably practicable, currency exposure on overseas investments is normally to be hedged back to sterling by the managers concerned and the benchmark comparisons are expressed in sterling.

2.7. Cash flow management

Investments are made so as to assist the Scheme in maintaining the strategic benchmark of the portfolio. Investments are allocated to the most underweight funds in sequential order. Disinvestments are made so as to assist the Scheme in maintaining its strategic benchmark allocation (excluding the holding in the Partners Generations Fund, given the longer term/illiquid nature of this investment approach and the LDI strategy). Disinvestments are made from the most overweight funds in sequential order. The Pension Fund's LDI strategy utilises an automatic collateral instruction service, whereby collateral calls and distributions are automatically disinvested or invested from/into the Insight Liquidity Plus fund.

2.8. Re-balancing

The Trustees review the asset allocation relative to the respective tolerance ranges set out in Appendix 1, on a quarterly basis. If the allocation to any asset class moves outside the tolerance ranges, the Trustees will, with the help of their investment adviser, undertake the necessary switches to bring the relevant funds back to the central benchmark.

Furthermore, where possible, the Scheme uses cash flows to rebalance the return seeking portfolio back to the strategic benchmark as detailed in section 2.7.

The LDI strategy and Partners Group Generations Fund are excluded from this procedure, however the Trustees, with the help of their investment advisers, review these holdings periodically.

3. Additional Voluntary Contributions

Additional Voluntary Contributions are invested in the Fund by purchase of notional units representing the policy of the investment managers investing the Fund assets. Members are offered added years of service in the Fund in exchange for these notional units.

4. Appointment of investment managers

4.1. How many investment managers are there?

Details of the appointed investment managers are outlined in Appendix 1.

The relationship with each investment manager is open ended and is reviewed on a periodic basis. The appointment date of each fund is noted in Appendix 1.

4.2. What formal agreements are there with the investment managers and platform provider?

The Trustees select investment managers and funds which are appropriate to implement the investment strategy.

The Trustees have signed policy documents and investment management agreements with the investment managers, setting out in detail the terms on which the portfolio is managed, including the need for suitable and appropriately diversified investments.

The Trustees keep the appointment of all investment managers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Scheme’s investment strategy.

4.3. What are the investment managers’ responsibilities?

The investment manager is responsible for the day-to-day management of the investments and is responsible for appointing custodians, if required.

The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

Any performance requirements for the managers are detailed in Appendix 1.

4.4. Custodians and administrators

The Scheme’s investments are through pooled investment vehicles. Therefore, there is no need for the Trustees to formally appoint a custodian as the investment comprises units held in listed investment vehicles rather than the underlying stocks and shares.

The underlying managers have appointed custodians for the safe custody of assets and these are detailed in Appendix 1.

4.5. What is the Trustees’ policy on investment in the Sponsoring Employer?

The Scheme does not directly hold any investments in the Sponsoring Employer.

5. Other matters

5.1. What is the Trustees' policy on the realisation of investments?

The Scheme's assets are held in pooled funds, most of which can be realised easily if the Trustee so requires.

Whilst at present the Scheme is cash flow positive, in the event the Scheme experiences negative cashflow, the Trustees and their advisers will agree on the amount of cash required for benefit payments and other outgoings and where this cash should be raised from.

5.2. What is the Trustees' policy on financially material considerations, non-financial factors and stewardship policies?

5.2.1 Financially material considerations

The Trustees acknowledge the potential impact upon the Scheme's investments and members arising from financially material matters. The Trustees define these as including, but not limited to, ESG matters (including climate change).

All of the Scheme's investment managers have signed the United Nations-supported Principles for Responsible Investment. The Trustee has provided the appointed investment manager with full discretion concerning the evaluation of ESG factors. The Trustees review the investment managers' policies on ESG factors periodically in the following ways:

- direct engagement with their investment managers e.g. at Investment Sub-Committee meetings;
- ESG reporting and advice from their investment advisers, including the provision of an annual report summarising their managers' key policies; and
- reviewing their investment managers' publicly available ESG related publications.

In doing this, the Trustees have determined that ESG is built into the core of their managers' investment processes, whilst Legal & General Investment Management ("LGIM") (who invest in index-tracking funds and so cannot exclude, or choose, any investments in their portfolio) use their market presence to actively engage with the companies they invest in and exercise their voting rights to support their ESG policies.

The Trustees expect the investment managers, where relevant, to utilise their position to engage with companies on ESG matters.

The Trustee also considers ESG factors when determining future investment strategy decisions. To date, the Trustee has not established any restrictions on the appointed investment managers but may consider this in future.

5.2.2 Non-financial factors

Members are given the opportunity to express their views during annual open meetings. These comments are raised with the Scheme's Investment Sub-Committee and considered when selecting, retaining and realising investments.

5.2.3 Stewardship

The Trustees acknowledge the constraints they face in terms of influencing change due to size and nature of the Scheme's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with its investments in a responsible manner.

The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of their investments.

The Trustees review their investment managers' policies on the exercise of voting rights and monitor their engagement practice and proxy voting activity via their annual reports.

5.3. How are various parties who are involved in the investment of the Scheme's assets remunerated?

Quantum is remunerated on a fixed fee or time-cost fee basis, with budgets agreed for projects where possible.

The Scheme invests in pooled funds. The Trustees note that the investment strategy and decisions of the fund managers cannot be tailored to the Trustees' policies and the managers are not remunerated directly on this basis. However, the Trustees, with the help of Quantum, set the investment strategy for the Scheme and select appropriate managers and funds to implement the strategy.

The Trustees do not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustees do, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The funds utilised typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustees consider the fees and charges associated with each investment before investing.

The investment managers and are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total value of the Scheme's funds they hold under management. In addition, the private market assets, which are actively managed, are subject to a performance related fee. This structure has been chosen to align the fund managers' interests and with those of the Scheme.

In addition, the fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The Trustees obtain an annual statement from the investment managers setting out all the costs of the investments of the Scheme.

Insight are remunerated on a basis relating to the economic exposure provided. Transaction costs are payable on the implementation of each tranche of LDI coverage.

5.4. Direct investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustees' policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustees will obtain written advice from the Scheme's investment adviser. If the Trustees believe that an investment is no longer suitable for the Scheme, they will withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice will consider suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

5.5. Do the Trustees take any investment decisions on their own?

The Trustees are responsible for the investment of the Scheme's assets. The Trustees take some decisions themselves and delegates others.

When deciding which decisions to take, and which to delegate, the Trustees take into account whether they have the appropriate training and expertise in order to make an informed decision.

The Trustees have established the following decision making structure:

Trustees

- Set structures and processes for carrying out their role.
- Agree structure for implementing investment strategy.
- Select and monitor planned asset allocation.
- Select and monitor investment advisers and fund managers.
- Select and monitor direct investments.
- Prepare and maintain the Statement of Investment Principles.

Investment adviser will, when requested by the Trustees:

- Advise on all aspects of the investment of the Scheme's assets, including implementation.
- Advise on this Statement.
- Provide required training.

Investment (or fund) managers

- Operate within the terms of this statement and the written contracts and agreements.
- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Ensure the suitability of the chosen benchmark for the respective investment vehicle.

5.6. Capital structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

5.7. Conflicts of interest

The Trustees consider any potential and actual conflicts of interest (subject to reasonable levels of immateriality) at the start of each Trustee and ISC meeting and document these in the minutes.

6. Review

6.1. How often are investments reviewed?

The Trustees review the investment strategy alongside triennial actuarial valuations of the Scheme, in line with the Pensions Regulator's Integrated Risk Management approach; but more frequent reviews can occur in light of a material change of circumstances, or if required by the Pensions Regulator. Any change in investment strategy may necessitate a change in investment managers, regardless of the underlying performance of the funds.

Investment return experience and the performance of individual funds is reviewed with assistance from Quantum each quarter. Managers are reviewed against their agreed performance benchmarks and targets over both short-term and long-term time periods, to ensure they remain appropriate to implement the Scheme's investment strategy.

6.2. How do the Trustees monitor portfolio turnover and costs?

The Trustees have delegated the selection of holdings to the appointed investment managers. The Trustees receive an annual report from the investment managers setting out portfolio turnover and the associated costs.

The Trustees have not set a specific portfolio turnover target for each investment manager and recognise that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

The Trustees will compare the annual turnover and associated costs for each fund with previous years to ensure each investment manager's process and philosophy remain consistent.

6.4. How often is this SIP reviewed?

The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Any change to this SIP will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe 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; and consulting the Sponsoring Employer.

Agreed by the Trustees of the Cardiff University Pension Fund in September 2020.

Appendix 1 – Managers, asset allocation & fund details

Managers and asset allocation

The following table shows the strategic asset allocation for the Scheme. The Trustees monitor the Scheme's asset allocation quarterly. If the allocation to any asset class moves outside the tolerance ranges detailed below, the Trustees will, with the help of their investment adviser, undertake the necessary switches to bring the relevant funds back to the central benchmark. Performance is reviewed periodically, with assistance from the Scheme's investment adviser as required.

Asset class	Manager	Fund	Asset allocation (%)	Tolerance range (+/-) (%)
Return seeking assets			**70.0**	
Equites	Legal & General Investment Management ("LGIM")	World Equity Index (GBP Hedged)	20.0	+/-2.0
Diversified Target Return	Newton Investment Management ("Newton")	Real Return	12.5	+/-4.0
	LGIM	Dynamic Diversified	12.5	
	M&G Investments ("M&G")	Episode Allocation	12.5	
Alternatives	Partners Group	Generations	12.5	--
Matching assets			**30.0**	
Corporate bonds	M&G	Long Dated Corporate Bond	10.0	+/-1.5
LDI Strategy	Insight Investments Management Limited ("Insight")	Enhanced Selection LDI Range	20.0*	--
	Insight	Liquidity Plus		--
	--	Pension scheme bank account		
Total			**100.0**	--

*The Scheme is targeting a 50% of assets hedge as at the implementation date. Insight's full leverage is utilised, however this is accompanied by a cash holding to reduce the overall leverage to c2.5x.

Managers and fund details

The table below shows the benchmarks, outperformance targets and custodians for each fund the Scheme is invested in.

Asset class	Fund	Benchmark	Objective / Outperformance target	Annual management fee	Custodian	Date of appointment
Return seeking assets						
Equity	LGIM World Equity Index (GBP Hedged)	FTSE All World – GBP Hedged	Track the performance of the benchmark (less withholding tax if applicable) - GBP Hedged (with the exception of advanced emerging markets) to within +/-0.5% p.a. for two years in three.	0.223%	Citigroup & HSBC Global Investor Services	August 2018
Diversified Target Return	Newton Real Return	UK 1 Month LIBOR	Outperform the benchmark by 4% p.a., over five years, before fees.	0.75%	BNY Mellon	August 2010
	LGIM Dynamic Diversified	Bank of England Base Rate	Outperform the benchmark by 4.5% p.a. (gross of fees) over rolling 5 years.	0.50%	HSBC	September 2020
	M&G Episode Allocation	UK 1 Month LIBOR	Outperform the benchmark by 5% p.a.	0.55%	State Street Bank and Trust	August 2018
Alternatives	Partners Group	N/A	Generate a net return of 7% to 11% pa net of fees over a full market cycle.	1.25%	BNY Mellon	July 2018
Matching assets						
Corporate bonds	M&G Long Dated Corporate	iBoxx Sterling Over 15 Years Non-Gilts Index	Outperform the benchmark by 0.8% pa gross of fees, on a rolling three year basis.	0.30%	HSBC	August 2010
LDI	Insight Enhanced Selection LDI Range	N/A	The Fund aims to provide liability hedging by delivering nominal/inflation-linked returns which replicates the liability profile of a typical UK defined benefit pension scheme.	See note below.	Northern Trust Fiduciary Service (Ireland) Limited	August 2018
Cash	Insight Liquidity Plus	3 month LIBID	The Fund aims to provide investors with stability of capital and income through investment in short-term fixed income and variable rate securities.	0.10%	Northern Trust Fiduciary Service (Ireland) Limited	August 2018

Note: Insight charge a commingled fee, with a charge of 0.12% being levied on the value of the economic exposure being hedged and a charge of 0.06% being charged on the value of assets residing within the Enhanced Selection LDI funds.