

# The University of Liverpool Pension Fund

## Written Statement of Investment Principles

February 2025

# Contents

<b>1.</b>	<b>Introduction and Summary</b>	<b>3</b>
<b>2.</b>	<b>General Statement of Objectives</b>	<b>5</b>
<b>3.</b>	<b>Legislation and regulations</b>	<b>6</b>
<b>4.</b>	<b>Myners – Investment Principles</b>	<b>8</b>
<b>5.</b>	<b>Investment Strategy</b>	<b>10</b>
<b>6.</b>	<b>Benchmark Asset Allocation</b>	<b>12</b>
<b>7.</b>	<b>Implementation</b>	<b>15</b>
<b>8.</b>	<b>Prescribed Matters</b>	<b>18</b>

# 1. Introduction and Summary

## Introduction

- 1.1. Under Section 35 of The Pensions Act 1995, trustees are required to prepare and review regularly a written Statement of Investment Principles, dealing with certain specific matters.
- 1.2. This Statement of Investment Principles supersedes the previous version, which was last reviewed by the University of Liverpool Pension Fund Trustees Ltd ('the Trustee') in July 2023.
- 1.3. This is the Statement of Investment Principles prepared by the Trustee. This statement sets down the principles governing decisions about investments for the Fund to meet the requirements of:
  - the Pensions Act 1995, as amended by the Pensions Act 2004, and
  - 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 and incorporates changes as required by Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and The Occupational Pension Schemes (Investment and Disclosure ) (Amendment) Regulations 2019.

## Summary

- 1.4. **Page 5** contains a general statement of the Trustee's investment objectives for the Fund and notes other considerations specifically relevant at the present time.
- 1.5. **Pages 6-7** reproduce the relevant paragraphs of The Pensions Act 1995 (as amended by the Pensions Act 2004).
- 1.6. **Page 8** outlines the Trustee's adoption of the Investment Governance Group Principles.
- 1.7. **Pages 9-10** describe the general considerations underlying the Trustee's approach to strategy.
- 1.8. **Pages 12-18** describe the investment strategy, in the form of a benchmark asset allocation, and its implementation.
- 1.9. **Pages 18-22** deal with the prescribed matters specified in the Regulations detailed in the Introduction.

## Trust Deed and Rules

- 1.10 The Fund's assets are held in trust by the Trustee, whose powers of investment are set out in the Trust Deed and Rules.

## **Mandates**

- 1.11 In reviewing this Statement of Investment Principles and the Trustee's investment strategy, investment advice was provided by Mercer Limited (the "Investment Advisor"). Actuarial and pension advice is provided on an ongoing basis by Mercer Limited. The scope of the day-to-day advice has been agreed by the Trustee. The work is agreed for a fixed fee with any additional projects charged either by an agreed fee or on a time cost basis. Special projects or assignments are agreed before commencement. The investment managers of some mandates charge for their services on both an 'ad valorem' basis (based on a percentage of assets under management) and on a performance related basis. The Trustee believes that this is the most appropriate fee structure for the Fund.

## 2. General Statement of Objectives

- 2.1. In formulating their strategy, the Trustee has taken account of the results of the latest Actuarial Valuation, which was carried out with an effective date of 31 July 2021. The investment strategy is reviewed regularly. The next full review will take place as part of the 31 July 2024 actuarial valuation process.

### **Investment Policy**

- 2.2 The Trustee's overall investment policy is guided by the following objectives:
- ❑ To ensure that the Fund's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Fund as they arise;
  - ❑ The long term aim of the Fund is to ensure that, together with future contributions, the Fund's assets are sufficient to meet benefits and any expenses payable under the Fund as they fall due;
  - ❑ The Trustee wishes to adopt a suitable investment policy in terms of both long-run strategic asset allocation and implementation, that will enable the Fund's asset value to increase in a prudent manner;
  - ❑ The Trustee wishes to manage the risk that the investment policy could lead to the accrual of future benefits ceasing to be provided under the Fund;
  - ❑ Subject to the strategic asset allocation containing a suitable level of risk, the Trustee wishes to generate surplus funds beyond the amounts expected to be required to meet the cost of standard benefits due to be payable under the Fund;
  - ❑ The Trustee wishes the Fund to be solvent in the event of a winding-up;
  - ❑ Each asset class has been considered and judged on merit for investment by the Trustee, having taken advice as appropriate from the Investment Advisor;
  - ❑ To set and monitor appropriate benchmarks and performance targets for the investment managers;
  - ❑ To pay due regard to the interests of the University of Liverpool ("the University") in relation to the volatility of the funding level and the payment of contributions.

The Trustee reviews the investment policy on an ongoing basis to ensure that the policies set out continue to be appropriate in line with the Trustee investment objectives.

### 3. Legislation and regulations

3.1. This statement sets down the principles governing decisions about investments for the Fund to meet the requirements of:

- ❑ the Pensions Act 1995, as amended by the Pensions Act 2004, and
- ❑ 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 and incorporates changes as required by Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

3.2. Section 35 of The Pensions Act 1995 (as amended by the Pensions Act 2004) ('the Act') states, inter alia, that:

"The trustees of a trust scheme must secure that a statement of investment principles is prepared and maintained for the scheme, and that the statement is reviewed at such intervals, and on such occasions, as may be prescribed and, if necessary, revised."

and that the term 'statement of investment principles' in relation to a trust scheme means:

"a written statement of the investment principles governing decisions about investments for the purposes of the scheme."

3.3. The statement must cover, among other things:

- ❑ The Trustee's policy for securing compliance with section 36 of the Act (choosing investments);
- ❑ Their policy about certain matters defined in the 2005 Regulations; and
- ❑ Their policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments.

3.4. Those matters are:

- ❑ the kinds of investments to be held;
- ❑ the balance between different kinds of investments;
- ❑ risk, including the ways in which risks are to be measured and managed;
- ❑ the expected return on investments;
- ❑ the realisation of investments; and
- ❑ the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and the realisation of investments.

- 3.5. Before a statement under this section is prepared or revised, the Trustee must:
- ❑ obtain and consider the written advice of a person who is reasonably believed by the Trustee 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 the investments of such Funds; and
  - ❑ consult the University.
- 3.6. The Trustee must ensure that the statement is reviewed:
- ❑ at least every three years; and
  - ❑ without delay after any significant change in investment policy.

## 4. Investment Governance Group – Investment Principles

4.1. The Trustee recognises the relevance of the Investment Governance Group principles to the Fund, which are based on the Myners Principles first published in 2008 following Paul Myners' review of institutional investment commissioned by the UK government. These principles are

- Effective Decision Making;
- Clear Objectives;
- Risk and Liabilities;
- Performance Assessment;
- Responsible Ownership; and
- Transparency and Reporting.

Further details on the Myners Principles can be found at: [nationalarchives.gov.uk](https://nationalarchives.gov.uk).

### **Asset Allocation**

4.2. The Trustee believes that one of the key points of the investment principles is the Trustee's focus of attention on asset allocation. The Trustee regularly reviews the Fund's asset allocation and last made changes to the Fund's target investment strategy in December 2024. The Trustee recognises and accepts that the actual asset allocation may deviate from the target allocation due to changes in market conditions. The Trustee may choose to rebalance the asset allocation, and will consider this decision on a case-by-case basis.

### **Key Investment Decisions**

4.3. The key investment decisions for the Fund are:

- Asset allocation; and
- Stock selection.



- 4.4. The Trustee has assumed responsibility for the asset allocation decision by setting a Fund specific benchmark. This is because the Trustee believes that the Fund's specific circumstances should be reflected in the asset allocation, and that this responsibility should not be delegated to the investment managers.
- 4.5. The Trustee has delegated the selection of individual stocks to Baillie Gifford & Co ('Baillie Gifford'), Veritas Asset Management ('Veritas') and J P Morgan Investment Management ('J P Morgan'). The selection of individual publicly-traded bonds has been delegated to BlackRock Investment Management Limited ('BlackRock'). The selection of individual properties has been delegated to DTZ Investors UK ('DTZ'), UBS Asset Management ('UBS') and Aviva Investors ('Aviva'). The selection of investments in multi-asset mandates have been delegated to CQS Global Funds (Ireland) ('CQS') and Mercer Global Investments Europe ("MGIE"). The Trustee has delegated the selection of private credit to MGIE and the underlying investment managers it selects.
- 4.6. The Trustee has made a strategic allocation of 10% of total assets (equivalent to c. £60m as at 30 September 2024) to Senior Private Debt via MGIE's Private Investment Partnership ("PIP") fund range. Exposure to Senior Private Debt will be achieved via allocations to different PIP vintages and is expected to build up over time. The Trustee has allocated to MGIE's Diversified Growth Fund, which will be used to meet drawdowns into PIP when monies are called for efficient implementation purposes.

## 5. Investment Strategy

### Background

- 5.1. In preparing this statement, the Trustee has taken into account the following information concerning the Fund:
- The nature of its benefits;
  - The Fund's solvency level (the ratio of the Fund's assets to its liabilities on an ongoing basis);
  - The results of the Actuarial Valuation as at 31 July 2021 and preliminary results of the 31 July 2024 Actuarial Valuation;
  - The fact that the University, in accordance with the Trust Deed and Rules, shall contribute such amounts to the Fund as shall be determined by the Trustee and the University to be necessary having regard to the assets and liabilities of the Fund and the strength of the University's covenant;
  - The maturity of the Fund's liabilities.

### Strategy

- 5.2. Under the legal documentation governing the Fund, the power of investment is vested in the Trustee.
- 5.3. In practice, the Trustee's fundamental responsibility is the strategic management of the assets. Day to day management is delegated to professional investment managers.
- 5.4. In reaching its strategic decision, the Trustee considers the advice received from the Fund's Actuary, Investment Advisor and the views of the University.
- 5.5. The Trustee has appointed an investment advisory-committee (the "IAC"), which meets regularly. The main purpose of the IAC is to review and monitor investment manager performance and to make recommendations to the Trustee on investment matters, as required.
- 5.6. Strategic management covers the following areas:
- determining whether the assets should be invested in pooled investment vehicles, or in a segregated portfolio of securities specifically managed for the Fund, or in a combination of the two.
  - determining whether the day-to-day investment policy should be managed on a "passive" or "active" basis, or a combination of the two<sup>1</sup>.

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<sup>1</sup> *Passive management seeks to replicate the investment returns achieved by the major stock and bond market indices. Active management seeks to add value to investment performance through the judicious selection of individual stocks and bonds, and allocation between sectors and markets.*

- ❑ determining whether the allocation of the Fund's assets to the various asset classes can be left to the discretion of the appointed investment managers, or whether direction is required from the Trustee in order to ensure that the assets are invested in a manner consistent with the nature of the Fund's circumstances.
- ❑ selection, appointment and monitoring of one or more investment managers chosen to implement the Trustee's strategic decisions, and to achieve the Trustee's objectives.

5.7. In its deliberations on strategy, the Trustee was mindful that:

- ❑ Equities are an attractive asset class for long-term investors looking to grow the real value of assets over the long term;
- ❑ Bonds can be appropriate for pensioner liabilities because they generate income and provide a degree of matching to movements in the present value of the Fund's liabilities;
- ❑ Property has a return profile, consisting of both income and capital gain, which is at times not closely related to the returns from equities and bonds and therefore acts to diversify the Fund's investments;
- ❑ Investing in alternative asset classes can help reduce the short-term volatility of the Fund's investment returns;
- ❑ There are advantages in having a diversified portfolio consisting of all the asset classes mentioned above; and
- ❑ The Fund's investments need to provide sufficient liquidity to meet expected benefit outgo on an ongoing basis.

5.8. The Trustee has decided to base its investment strategy on a benchmark asset allocation, which has regard, among other things, to:

- ❑ The distribution of the Fund's liabilities, in particular short to medium-term cash flow requirements;
- ❑ The Fund's funding position; and
- ❑ The financial strength of the University.

5.9. Taking into account the above, the Trustee's investment strategy is as follows:

- ❑ To take a level of risk that is appropriate to the liability and cash flow profile of the Fund;
- ❑ To give a clear brief to the investment managers;
- ❑ To invest assets in accordance with the strategy set out in Section 6.

## 6. Benchmark Asset Allocation

### Investment Strategy

- 6.1. As set out in paragraph 2.2 (bullet point 2), the long term aim is to ensure that, together with future contributions, the Fund's assets are sufficient to meet benefits and any expenses payable under the Fund as they fall due.
- 6.2. Following consideration of the above issues, the Fund's current funding level and the level of investment risk being taken, the Trustee has decided to adopt an investment strategy as follows:
  - 40% actively invested in Global Equities
  - 5% actively invested in Unlisted Infrastructure Equity
  - 10% invested in Multi Asset Credit
  - 10% invested in Senior Private Debt
  - 20% invested in defensive fixed income, which will consist of investment grade credit and UK government bonds. At the point of implementation the target allocation is 10% to fixed-interest and index-linked gilts, respectively, however these allocations may change over time.
  - 15% actively invested in Property (including a 5% allocation to Long Lease Property)
- 6.3. Rebalancing back to the weightings in 6.2 will be carried out as and when considered appropriate by the IAC.
- 6.4. The University has agreed to accept the investment risk of maintaining a strategy of being invested in the asset allocation in 6.2.
- 6.5. This strategy was agreed in December 2024.

## Benchmarks

6.6. The benchmarks for the mandates and pooled funds are:

Managers	Objective	Benchmark
Baillie Gifford	To outperform the benchmark by 2.0% net of fees over rolling 5 year periods	MSCI All Countries World Index
Veritas	Outperformance of UK inflation (CPI) by 6-10% pa over rolling 5 years	MSCI World Index <sup>1</sup>
J P Morgan	To outperform the benchmark by 8% - 12% net of fees over the market cycle	3 Month SONIA
BlackRock (Buy & Maintain Credit)	To outperform the benchmark gross of fees over rolling 3 years <sup>2</sup>	iBoxx £ Non-gilt All Stocks (TR) Index
BlackRock (Over 15 Year Fixed Interest Gilts)	To perform in line with the benchmark	FTSE Actuaries UK Conventional Gilts over 15 Years Index
BlackRock (Over 5 Year Index-Linked Gilts)	To perform in line with the benchmark	FTSE Actuaries UK Index-Linked Gilts over 5 Years Index
UBS	To consistently outperform the benchmark	AREF/IPD QPFI All Balanced Property Fund Index Weighted Average
DTZ	6-8% p.a. internal rate of return net of fees over the life of the Fund. Income distribution of 6% p.a. once the fund is fully invested	AREF/IPD QPFI All Balanced Property Fund Index Weighted Average <sup>3</sup>
Aviva	To outperform the benchmark by 1.5% p.a. over the long term	50:50 split between FTSE 5-15 Year Gilts and FTSE 15 Yr+ Gilts
CQS	To outperform the benchmark by 4-5% p.a.	3 Month SONIA
MGIE (Senior Private Debt)	To achieve a return of SONIA + 4% p.a. on invested capital <sup>6</sup>	N/A <sup>6</sup>

<sup>1</sup> Please note that, owing to the management style of the fund, the Veritas fund aims to deliver a target level of return in the long term indicated by outperformance of UK inflation. The global equity market index is intended as an indicative performance objective over the short to medium term for the Trustee's monitoring purposes.

<sup>2</sup> Please note that, owing to the management style of the fund, the BlackRock UK Buy & Maintain Fund does not have a published benchmark index. As such, this is intended as an indicative performance objective, as agreed between BlackRock and the Trustee. The objective published by BlackRock is as follows: "To produce an income by investing in a diversified portfolio of high quality non-government bonds"

<sup>3</sup> The DTZ UK Active Value Property Unit Trust II does not have an official benchmark index and, instead, expresses its objective in absolute terms. As such, this is intended as an indicative performance objective over the short to medium term for the Trustee's monitoring purposes.

<sup>4</sup> Please note that, owing to the management style of the fund, the J P Morgan fund aims to deliver a target level of return in the long term indicated by the benchmark. The fund may not, therefore, closely track the benchmark in the short terms. In this regard the benchmark should be considered as an indicative performance objective over the short to medium term for the Trustee's monitoring purposes

<sup>5</sup> Please note that, owing to the management style of the fund, the Aviva fund aims to deliver a target level of return in the long term indicated by the benchmark. The fund may not, therefore, closely track the benchmark in the short terms. In this regard the benchmark should be considered as an indicative performance objective over the short to medium term for the Trustee's monitoring purposes.

<sup>6</sup> PIP Senior Private Debt funds do not have an explicit benchmark due to the nature of private credit as an asset class, but the Trustee expects the mandates to deliver returns of at least SONIA + 4% p.a. on invested capital.

MGIE (Diversified Growth)	To outperform the benchmark by + 4% p.a.	FTSE GBP 1 Month Euro Deposit Index
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6.7. Any investment of new contributions, and disinvestment, will be made with regard to practical considerations, and to the scheme specific benchmark as outlined in 6.2.

## 7. Implementation

- 7.1. Following appropriate professional advice and having undertaken a suitable manager selection exercise, the Trustee believes that its strategy is most appropriately implemented by Aviva, Baillie Gifford, BlackRock, CQS, DTZ, J P Morgan, Mercer, UBS and Veritas. These investment managers are regulated by the Financial Conduct Authority.

### Investment Managers

- 7.2. The Trustee has entered into investment management agreements with the managers, which comply with this Statement of Investment Principles. The agreements also set out the terms on which the assets are managed, and the investment guidelines and restrictions under which the managers must operate.
- 7.3. With the exception of BlackRock, all of the fund managers have been appointed to manage assets on an active basis. BlackRock are appointed to manage both investment grade credit and UK government bonds (allocations to which may vary within the defensive fixed income portfolio). When held, the investment grade credit allocation will be managed on a “buy and maintain” basis. The Fund’s allocation to UK government bonds is managed passively and is intended to replicate a reference index with low tracking error.
- 7.4. The safekeeping of the underlying assets is performed on behalf of the Trustee by custodians specifically appointed to undertake this function, and whose appointments are reviewed at regular intervals by the Trustee. The contractual arrangements with the custodians offer a very high level of protection against negligence or default on the part of the custodians.
- 7.5. The custody of the assets across the different funds is summarised in the table below.

Manager	Pooled / segregated	Custodian
DTZ	Pooled basis (unit trust)	Saltgate Limited <sup>4</sup>
Aviva	Pooled basis	RBC Jersey
Baillie Gifford	Pooled basis	Bank of New York Mellon
BlackRock	Pooled basis	Bank of New York Mellon
CQS	Pooled basis	JP Morgan
J P Morgan	Pooled basis	Citco Fund Services
UBS	Pooled basis	Northern Trust
Veritas	Pooled basis	Brown Brothers Harriman Trustee Services (Ireland) Limited
MGIE (Senior Private Debt)	Pooled basis	Alter Domus <sup>5</sup>
MGIE (Diversified Growth)	Pooled basis	State Street

<sup>4</sup> As the fund is a unit trust which invests in property, there is no custodian or equivalent in the same way as for other pooled funds. However, Saltgate Limited, as Managing Trustee of the trust, are responsible for the safe custody of cash on receipt from investors and the property title documents of underlying holdings.

<sup>5</sup> The Fund’s investment in Senior Private Debt through a ‘fund of funds’ approach, managed by MGIE, therefore there is no custodian. Alter Domus are the administrator to the Private Investment Partners VII (“PIP VII”) Fund

- 7.6. The Trustee's investments are evidenced by quarterly transaction statements issued by the investment managers.
- 7.6. In recognising that the Fund invests via pooled funds, the Trustee acknowledges some of its ability to directly influence the investment managers, including incentivisation, is constrained. However the arrangements with the investment managers are governed by the relevant contract/Investment Management Agreement, and the investment managers are required to comply, which is monitored. The Trustee only selects managers whose guidelines are consistent with this statement and Investment Managers are expected to take the Trustee's policies and principles on all investment matters including taking financial and non-financial matters (including but not limited to environmental social and governance (ESG)) into account as well as the Trustee's policies on Stewardship. Regular meetings with the managers facilitate two-way communications and would be expected to indicate areas of interest and resolve issues.
- 7.7. While the Trustee's ability to directly incentivise the investment managers is constrained by investing via pooled funds, the ultimate incentivisation - and by far the most powerful - is that if the investment manager does not adhere to and reflect the Trustee's policies then they lose some or all of the assets to manage and the corresponding revenue. In addition, in this circumstance, there could be significant reputational risk to the particular investment manager which could be even more commercially damaging. The direct and indirect incentives for investment managers to behave responsibly are considerable.
- 7.8. The Trustee monitors, via performance reporting provided by Mercer, its investment managers (absolute and relative) performance quarterly, with particular focus on the medium and longer term. Each portfolio is measured on a manager-specific basis (e.g. several managers have rolling 5 year targets and the performance target for some other portfolios is not duration-specific). Indeed some portfolios are not purely about performance in the sense of investment return but are held for other investment reasons, such as income generation and/or dampening total fund volatility. Monitoring and evaluation must be portfolio-specific and reflect why the portfolio is part of the total Fund. The Trustee specifically looks at the consistency of performance on the appropriate metric and in addition pays particular regard to the longest period the Fund has engaged with each manager on each portfolio; 'since inception' performance. As part of this reporting, the Trustee reviews and evaluates all the manager portfolio fees paying particular attention to 'value for money'.
- 7.9. The Trustee does not believe it appropriate to specifically measure or manage portfolio turnover, recognising that portfolio turnover and the associated transaction costs are a necessary part of investment management and that the financial impact of portfolio turnover is already reflected in the (net) performance of investment managers. Investment managers will instead be asked to report on portfolio turnover when presenting to the IAC. The important investment feature of a portfolio is the 'net of costs' return as it is that return which grows the Fund and ultimately pays the promised benefits. Portfolio costs are both explicit, such as investment manager fees (possibly including a performance-related element), and implicit, such as portfolio turnover. Different assets, portfolios and investment managers will have their own discrete philosophy and style of management, with consequent turnover, and the Fund - while it monitors this ongoing - does not believe it appropriate to 'manage' this feature and, in particular, set limits on such activity. As any portfolio turnover, and consequent cost, is adverse to the ability of the investment manager to deliver satisfactory return there is already strong alignment between investment managers and the Fund. Setting turnover targets and/or limits could prevent an investment manager from pursuing their portfolio discretion and this is against the Fund's best interests. However, the Trustee would expect any manager with abnormal turnover (relative to their style of management) to identify this and give a rationale.



- 7.10. The Trustee selects investment managers with whom it can have a very long term relationship and so the investment manager arrangement is effectively in perpetuity, rather than time limited (with the exception of DTZ, who manage a closed ended fund which will run off over time), provided the Fund deems that portfolio an appropriate part of its overall strategy and the Trustee is satisfied the investment manager is delivering value for money. However the Trustee retains the right to release any investment manager once appropriate advice has been taken.

## 8. Prescribed Matters

### Introduction

- 8.1. This section covers those matters prescribed in Section 35 of The Pensions Act 1995 (as amended by the Pensions Act 2004) and 2005 Amending Regulations.

### Choosing Investments

- 8.2. The assets of the Fund are invested in pooled vehicles. Ownership is thus of units in unit trusts or managed funds.
- 8.3. The Trustee is mindful of the underlying distribution of assets. In particular, it regards the distribution of the assets between “real” assets (global equities, infrastructure equity, and property) and “monetary” assets (UK fixed interest and cash) as appropriate to their Fund’s liabilities.
- 8.4. Having recognised the individual fund managers’ discretion over stock, bond, property and asset class selection, the Trustee nonetheless understands that it is the investment managers’ policy to invest in a diversified portfolio of appropriate assets within each asset class.
- 8.5. As the Fund invests via pooled funds, it is acknowledged that the Trustee is not able to impose explicit restrictions on asset classes given the policies are common to all investors. However, the Trustee has reviewed the asset class restrictions of the pooled funds and believe that these are appropriate for the respective objectives.

### Kinds of Investments

- 8.6. The Trustee recognises that its investment managers may invest in the following asset classes on behalf of the Fund, and in a range of marketable securities, for example:
- ❑ Global Equities;
  - ❑ Infrastructure Equity;
  - ❑ Government Bonds;
  - ❑ Corporate Bonds;
  - ❑ Private Debt;
  - ❑ Property; and
  - ❑ Cash.

The above list of asset classes is not intended to be exhaustive. In particular, the Trustee’s multi asset managers have discretion to invest in alternative asset classes subject to restrictions noted in 8.5.

### **Balance Between Investments**

- 8.7. The Trustee recognises the advantages of diversification between different asset classes from the perspective of:
- Reducing the risk that results from investment in any one particular market; and
  - Enhancing return.

### **Risk**

- 8.8. The Trustee pays close regard to the risks which may arise through a mismatch between the Fund's assets and its liabilities and cash flow requirements, and to the risks which may arise from the lack of diversification of investments. It believes that the investment policies to be followed by their investment managers do have adequate regard to the need to diversify within each asset class.
- 8.9. In assessing risk, the Trustee has been mindful of the Fund's:
- Funding Level on an Ongoing Basis; and
  - Solvency Level on a Discontinuance Basis.
- 8.10. It is also aware of the short-term volatility of the various asset classes and the connections between different markets.
- 8.11. In arriving at its benchmark the Trustee is satisfied that it is not assuming undue risk. This takes into account the financial strength of the University, which is responsible for underwriting the liabilities of the Fund.
- 8.12. Procedures are in place which allows the Trustee to regularly monitor and understand the level of risk being run by the investment strategy. The most important risk is that the Fund's assets are insufficient to meet its liabilities over the long term. Another important risk is that the Trustee is required to disinvest from volatile asset classes to meet Fund payments due to insufficient income from the Fund's assets, however this risk is managed by taking income from the Fund's investments.

### **Expected Return on Investments**

- 8.13. The Trustee has noted the long-run relationships which exist between the returns from different asset classes.
- 8.14. The 2021 Actuarial Valuation assumed investment returns of gilts plus 2.25% p.a. pre-retirement (being the expected return on growth assets, including equities, property and diversified growth funds) and gilts plus 0.75% p.a. post retirement (being the expected return on bonds).
- 8.15. The Trustee believes the expected return on the Fund's investments is sufficient to support these assumptions.
- 8.16. The Trustee has also noted that the equity fund holdings are expected to be the most volatile asset class the Fund holds in terms of market returns on an annual basis.

### **Realisation of Investments**

- 8.17. The Fund's assets are invested in pooled vehicles, which in turn invest in underlying securities and properties. The Trustee believes that the Fund's investments can be realised, if necessary.

### **Financially material considerations**

- 8.18. The Trustee believes that factors such as environmental, social and governance (ESG) issues (including, but not limited to, climate change) may be financially material for the Fund over the long-term. Given the open nature of the Fund, this is expected to be more than 10 years from the date of this document.
- 8.19. Moreover, the Trustees believe that:
  - ❑ The willingness and ability of companies to adopt the highest standards of social responsibility is increasingly important to long term growth in the value of their business
  - ❑ Successful enterprises are a partnership between the providers of capital, the labour force, the suppliers and the customers: investee companies should have appropriate policies in these areas
  - ❑ Good corporate governance, in addition, includes the management of the company's impact on society and the environment

- 8.20. The Trustee has elected to invest the Fund's assets through pooled funds. The choice of pooled funds is made by the Trustee, with advice from their investment consultant as required. This has the practical result that the Trustee cannot themselves directly influence the ESG policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect the managers of the underlying funds, to take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments. The Trustee also expects that any advice received with regard to the selection of managers will take account of the managers' integration of ESG factors.
- 8.21. The Trustee expects that the investment managers should carefully consider a number of criteria when selecting and retaining suitable stocks for the Fund. Commercial reasons should be paramount but ESG factors are important qualities of companies and should contribute to growth on a long-term view.
- 8.22. The Trustee takes 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: Agreed a process 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 Trustee will request information from the investment consultant and managers about how ESG considerations are taken into account in decisions to realise investments.
- 8.23. The Trustee 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 Fund's investments.
- 8.24. The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:-
- ❑ The Trustee will obtain regular training from the Fund's Investment Consultant on ESG considerations in order to understand fully how ESG factors including climate change could impact the Fund and its investments;
  - ❑ As part of ongoing monitoring of the Fund's investment managers, the Trustee will use any ESG ratings information available within the pensions industry, to assess how the Fund's investment managers take account of ESG issues; and
  - ❑ The Trustee will request that all of the Fund's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on a regular basis. The Trustee will be reliant on the information presented by the investment managers regarding the extent to which they allow for ESG in their decisions.

## **Non-financially material considerations**

- 8.25. The Trustee does not take into account the views of members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Fund (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.
- 8.26. The Trustee will review its policy on whether or not to take account of non-financial matters on a regular basis.

## **Stewardship**

- 8.27. The Trustee's 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 Trustee's behalf. In doing so, the Trustee expects 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.
- 8.28. The Trustee will monitor and engage with the investment managers about relevant matters (including business performance, strategy, capital structure, management of conflicts of interest, ESG and corporate governance matters).
- 8.29. The investment managers, having clear policies of voting on all important issues and on active engagement with companies on behalf of the Fund's interests, have provided the Trustee with statements dealing with active engagement and voting policy and practices where appropriate.
- 8.30. Investment managers will be asked to provide details of their stewardship policy and engagement activities on a regular basis. The Trustee will monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee may engage with the 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.

## **Voting**

- 8.30. The Fund's assets are invested via pooled funds. As such, direct control of voting is delegated to the investment manager of the pooled fund. The Trustee monitors this activity and includes it in their evaluation of the investment manager and where the Trustee has concerns it will raise this with the investment manager.

## **Engagement**

- 8.31. The Trustee delegates primary responsibility for its corporate engagement activities to its investment managers. The Trustee believes the investment managers are best placed to engage with the investee companies on their performance, strategy, capital, structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

## **Implementation Statement**

- 8.32. Each year from 1 October 2020 the Trustee will produce an implementation Statement within their Annual Report and Accounts which will:
- ❑ Explain how and the extent to which the Trustee has followed its policy on stewardship detailed in this SIP during the scheme year
  - ❑ Describe the voting behaviour carried out on behalf of the Trustee, including the most significant votes cast by the investment managers on the Trustee's behalf.
  - ❑ Define what the Trustee considers to be a 'significant vote' and provide examples where manages have voted on the Trustee's behalf in line with this definition

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## **Other Matters**

- 8.33 The Trustee confirms that it has received and considered written advice from Mercer Limited on the establishment of its investment strategy.
- 8.34. The Trustee confirms that it has consulted the University regarding its strategy.
- 8.35. The Trustee will formally review its long-term strategy every 3 years, or more frequently if circumstances dictate.
- 8.36. The Trustee recognises the need to measure the performance of the managers against their benchmarks as set out in section 6.6. The Trustee also recognises the need for measurement to be undertaken independently of the managers themselves, who may provide statistics of their own performance. The Trustee has agreed to delegate this to the Investment Consultant, Mercer Limited.


## **Compliance with this Statement**

- 8.37. The Trustee will monitor compliance with this Statement annually. The investment managers will confirm annually that they are complying with the Statement of Investment Principles.

## **Review of this Statement**

- 8.38 The Trustee actively reviews this Statement on an ongoing basis, and will also do so in response to any material changes to any aspects of the investment arrangements details above. Formal reviews will be undertaken no less frequently than every 3 years to coincide with the Actuarial Valuation. Any such review will again be based on written, expert investment advice from an Investment Consultant and will be in consultation with the University of Liverpool.

**Signed for and on behalf of the University of Liverpool Pension Fund Trustees Ltd**



**Dated February 2025**