

## PENSION&ASSURANCE SCHEME **BUPAS**



### Statement of Investment Principles (SIP)

#### **Purpose of this Statement**

This SIP has been prepared by the Trustees of the Bangor University Pension and Assurance Scheme (the "Scheme"). This statement sets out the principles governing the Trustees' decisions to invest the assets of the Scheme.

The Scheme's investment strategy is derived from the Trustees' investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

Details of the Scheme's investment arrangements are set out in the Investment Implementation Document ("IID").

#### **Governance**

The Trustees of the Scheme make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees' investment advisers, Isio, are qualified by their ability in, and practical experience of, financial matters, and have the appropriate knowledge and experience. The investment advisers' remuneration may be a fixed fee or based on time worked, as negotiated by the Trustees in the interests of obtaining best value for the Scheme. **Investment objectives**

The Trustees invest the assets of the Scheme with the aim of ensuring that all members' current and future benefits can be paid. The Scheme's funding position will be reviewed on an ongoing basis to assess the position relative to the funding target, and whether the investment arrangements remain appropriate to the Scheme's circumstances. The Scheme's funding target is specified in the Statement of Funding Principles.

The Scheme's primary investment objective is to ensure that the Scheme is able to meet the benefit payments promised as they fall due. This is to be achieved through a combination of planned contributions and returns from investment of around 2.6% per annum above the return on a liability matching portfolio of UK Government bonds. Over the longer term, the Scheme's objective is to achieve and maintain a fully funded position on a Technical Provisions (TP) basis and thus reduce the Scheme's reliance on the employer's covenant.

#### **Investment strategy**

The Trustees take a holistic approach to considering and managing risks when formulating the Scheme's investment strategy.

The Scheme's investment strategy was derived following careful consideration of the factors set out in Appendix B. The considerations include the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Scheme, and also the strength of the sponsoring employer's covenant. The Trustees considered the merits of a range of asset classes.

The Trustees recognise that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Scheme consist predominantly of investments which are traded on regulated markets.

### **Investment Management Arrangements**

The Trustees have appointed several investment managers to manage the assets of the Scheme as listed in the IID/SIP. The investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustees take investment managers' policies into account when selecting and monitoring managers. The Trustees also take into account the performance targets versus which the investment managers are evaluated. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager.

### **Investment Manager Monitoring and Engagement**

The Trustees monitor and engage with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustees seek to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	<p>The Trustees receive a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustees meeting.</p> <p>The Scheme's investment managers may be invited to present to the Trustees on their performance, strategy and risk exposures.</p>	<ul style="list-style-type: none"> <li>- There are significant changes made to the investment strategy.</li> <li>- The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustees' expectations.</li> <li>- Underperformance vs the performance objective over the period that this objective applies.</li> </ul>
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none"> <li>- The Trustees' investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li> <li>- The Trustees receive information from their investment advisers on the investment managers' approaches to engagement.</li> <li>- The Trustees will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.</li> </ul>	<ul style="list-style-type: none"> <li>- The manager has not acted in accordance with their policies and frameworks.</li> </ul>

Through the engagement described above, the Trustees will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustees will review the relevant investment manager's appointment and will consider terminating the arrangement.

### **Employer-related investments**

The policy of the Trustees is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments

will not exceed 5% of the Scheme's total asset value. The Trustees will monitor this on an ongoing basis to ensure compliance.

### **Direct investments**

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

### **Additional Voluntary Contributions**

The Scheme provides a facility for members to pay additional voluntary contributions (AVCs) to enhance their benefits at retirement. The Trustees' objective is to provide vehicles that enable members to generate suitable long-term returns, consistent with their reasonable expectations. The investment funds offered to members are currently provided by Prudential Assurance Company Limited.

The appointment of the AVC provider and the choice of AVC funds offered to members will be reviewed periodically by the Trustees (including the performance of the providers). Where possible, performance of the AVC provider will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options.

### **Compliance**

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustees consulted the sponsoring employer and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Signed:  Michael Wilson, Trustee

Date: .....17/01/2023

## **Appendix A – Investment Beliefs**

The Trustees have formulated a set of ESG beliefs to help underpin overall investment decision making. The Trustees' ESG beliefs have been summarised below.

### **Risk Management**

1. ESG factors can be financially material and managing risks such as climate change forms part of the Trustees' fiduciary duty.
2. The Trustees wish to invest in managers and funds that exhibit best practice ESG integration. Positive tilts to ESG factors will be made where the Trustees feel that these investments will generate superior long-term returns and/or lower risk.
3. The Trustees will consider the ESG values and priority areas of the sponsor, where this is not conflicted with the Trustees' fiduciary duty.

### **Approach/Framework**

4. The Trustees want to understand how investment managers integrate ESG considerations into their investment process and in their stewardship activities; and will include reference to ESG capabilities in future manager searches.
5. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will seek to allocate to these sectors.
6. The Trustees place particular importance on exposure to climate risk and so will take steps to mitigate exposure to this where practical.

### **Voting & Engagement**

7. The Trustees wants to understand each investment managers' approach to engaging with portfolio companies and the effectiveness of these activities.
8. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors.
9. The Trustees believe that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance.

### **Reporting & Monitoring**

10. ESG factors are dynamic and continually evolving, therefore the Trustee will receive training as required to develop their knowledge.
11. The Trustees will monitor suitable, quantifiable ESG metrics to understand the impact of the Scheme's investments.
12. The Trustees will communicate the ESG approach to the Scheme's members as appropriate.

### **Collaboration**

13. Investment managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best

practices as well as sign up and comply with common codes such as UNPRI, TCFD and Stewardship Code.

### **Implementing the Policy**

The Trustees will implement the policy through the following steps:

- i. The Trustees will continue to develop their understanding of ESG factors through training on ESG and keep themselves up to date on the latest sustainable investment opportunities.
- ii. The Trustees' ESG beliefs will be formally reviewed every two years or more frequently if required by the Trustees.
- iii. The Trustees will incorporate ESG criteria as part of new manager selection exercises, with explicit consideration of ESG factors for segregated mandates.
- iv. The Trustees, with support from Isio, will undertake annual reviews of the investment managers' approach to integrating ESG factors.
- v. Following the initial review, actions will be identified where investment managers are misaligned with the Trustees' ESG beliefs. Isio will engage with each manager on the Trustees' behalf to remedy these issues where possible.
- vi. The investment managers' stewardship and engagement activities will be monitored on an ongoing basis and the Trustees will seek to understand the effectiveness of these activities.
- vii. The Trustees will include ESG topics in member communications.

### **Monitoring and reviewing the Policy**

The Trustees will monitor the Scheme's assets against this Policy on an ongoing basis, with the assistance of Isio. The Trustees view the development of the Policy as an ongoing process as approaches to integrating ESG factors continue to evolve over time. When reviewing the Policy, the Trustees will take account of any significant developments in the market to ensure they are taking a best practice approach.

### **Appendix B – Risks, Financially Material Considerations (including ESG and climate change) and Non-Financial matters**

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

<b>Risks</b>	<b>Definition</b>	<b>Policy</b>
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"> <li>- Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring employer's covenant strength.</li> <li>- Investing in a diversified portfolio of assets.</li> </ul>
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> <li>- Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>- The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.</li> </ul>
Covenant	The risk that the sponsoring employer becomes unable to continue providing the required financial support to the Scheme.	<ul style="list-style-type: none"> <li>- When developing the Scheme's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.</li> </ul>

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

<b>Risk</b>	<b>Definition</b>	<b>Policy</b>
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To broadly hedge 100% of these risks.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and

		to provide collateral to the LDI/synthetic equity manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any risks deemed to be "unrewarded risks", where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To apply the ESG policy as above, including when appointing and monitoring managers
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	<ul style="list-style-type: none"> <li>- Investing predominantly in sterling assets, and only taking currency risk where it increases the level of diversification.</li> <li>- Where the Scheme's mandates have overseas exposure, the Trustees will implement a currency hedge appropriate for that mandate.</li> </ul>
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

## Appendix C

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

### How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies

- As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.



- The Scheme's Renewable Infrastructure mandate is subject to a performance related fee.

**How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.**

- The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.

**How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies**

- The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
- The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.

**The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range**

- The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

**The duration of the Scheme's arrangements with the investment managers**

- The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. o For closed ended funds or funds with a lock-in period the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees' objectives and Scheme's liquidity requirements. o For open ended funds, the duration is flexible, and the Trustees will from time to time consider the appropriateness of these investments and whether they should continue to be held.

**Voting Policy - How the Trustees expect investment managers to vote on their behalf**

- The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

**Engagement Policy - How the Trustees will engage with investment managers, direct assets, and others about 'relevant matters'**

- The Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.
- The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.
- Example stewardship activities that the Trustees have considered are listed below.
  - Selecting and appointing asset managers – the Trustees will consider potential managers' stewardship policies and activities
  - Asset manager engagement and monitoring – on an annual basis, the Trustees assess the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustees' investment decision making.