

University of Newcastle-upon-Tyne Retirement Benefits Plan (1971) For Non-Academic Staff (the “Plan”)

Statement of Investment Principles (the “Statement”) from the Trustee Directors

1. Scope of Statement

This Statement has been prepared in accordance with Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is July 2023. The Trustee Directors will review this Statement and the Plan’s investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy. The Appendices to this Statement contain further detail regarding the implementation of the investment strategy and may be updated from time to time without updating this Statement.

2. Consultations Made

The Trustee Directors have consulted with the Employer, the University of Newcastle upon Tyne, on this Statement and will take the Employer’s comments into account when they believe it is appropriate to do so. Regular meetings are held with the Employer to facilitate a continual dialogue.

The Trustee Directors are responsible for the investment strategy of the University of Newcastle upon Tyne Retirement Benefits Plan (1971) For Non-Academic Staff. The Trustee Directors have obtained written advice on the investment strategy appropriate for the Plan and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited (“Aon”) who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Plan’s assets has been delegated to investment managers which are authorised and regulated by the Financial Conduct Authority. A copy of this Statement has been provided to the investment managers appointed and is available to the members of the Plan.

3. Objectives and Policy For Securing Objectives

The Trustee Directors’ objectives for setting the investment strategy of the Plan have been set with regard to the Plan’s Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustee Directors’ primary objectives are:

- “funding objective” - to ensure that the Plan is fully funded using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Employer;
- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the Plan’s investment strategy; and
- “security objective” – to aim for a satisfactory solvency position (as assessed on a gilt basis). The Trustee Directors will take into account the strength of the Employer’s covenant when determining the expected improvement in the solvency position of the Plan.

The Trustee Directors recognise that these objectives may conflict. For example, a greater allocation to more defensive assets may give greater security, but may result in a level of required contributions, which the Employer may find too difficult to support. The Trustee Directors also recognise that in resolving this conflict, it is necessary to accept some risk.

4. Investment Risk Measurement and Management

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Plan, following which the Trustee Directors take advice on the continued appropriateness of the existing investment strategy.

The Trustee Directors review the risks associated with changes in the Employer covenant on a regular basis with an appropriate combination of input from the University Finance department and independent assessment across the one and three-year cycles. The Trustee Directors also have an agreement with the Employer to receive notification of any events, which have the potential to alter the creditworthiness of the Employer. In particular, the Trustee Directors will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator and Employer-related Notifiable Events. Also, the Employer will give notice if placed under 'Special Measures' by the Office for Students (OFS). On receipt of any such notifications, the Trustee Directors will re-consider the continued appropriateness of the Plan's existing investment strategy.

The Trustee Directors monitor the risks arising through the selection or appointment of investment managers on a quarterly basis via investment monitoring reports prepared by their investment consultant, Aon. Expected deviation from the benchmark (for a passive manager) or out-performance target (for an active manager) is detailed in Appendix I of this Statement. The Trustee Directors have appointed Aon to alert them on any matters of material significance that might affect the ability of the investment managers to achieve their objectives.

The Trustee Directors acknowledge that investment returns achieved outside the expected deviation (positive or negative) may be an indication that the investment manager is taking a higher level of risk than indicated.

For due diligence purposes, the Trustee Directors aim to meet no less than three times per annum and the Investment Sub-Committee meets the investment managers as appropriate.

5. The Balance Between Different Kinds of Investments

The Trustee Directors recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation. The Trustee Directors therefore retain responsibility for setting asset allocation and take expert advice as required from their investment consultant.

The Trustee Directors believe the most appropriate means of determining asset allocation is by asset and liability modelling, which is usually carried out following each formal actuarial valuation of the Plan (or more frequently should the circumstances of the Plan change in a material way). Therefore, as a minimum the asset allocation is reviewed once every three years.

A broad range of available asset classes has been considered. This includes consideration of so-called "alternative" asset classes.

6. Choosing Investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Plan, its cash flow requirements, the funding level of the Plan and the Trustee Directors' objectives.

The assets of the Plan are invested in the best interests of the members and beneficiaries.

The Trustee Directors exercise their powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes. Day to day selection of stocks is delegated to investment managers appointed by the Trustee Directors.

Assets held to cover the Plan's technical provisions (the liabilities of the Plan) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Plan.

The assets of the Plan are invested predominantly in regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

The Trustee Directors also invest in certain non-quoted, illiquid infrastructure assets in order to access the long term returns that they provide. These funds are monitored regularly to ensure the risks associated with such investments are being appropriately managed.

The Trustee Directors do not hold any direct investments in derivatives although the Plan's investment managers may do so long as it contributes to the reduction of investment risk or facilitates efficient portfolio management.

7. Custody

The custodians for the pooled fund arrangements are appointed by each of the respective managers. The custodians for any segregated arrangements are appointed by the Trustee Directors. The Trustee Directors receive a copy of the investment managers', custodians' and auditors' reports on their respective procedures prepared in accordance with the appropriate legislative requirements.

The custodians are independent of the Employer.

8. Expected Returns on Assets

"Return-seeking" assets target a higher expected return than that of risk reducing/matching assets and typically have a higher associated volatility, relative to liabilities. These assets would typically involve equities and could also include alternative asset classes including, but not limited to absolute return funds, infrastructure, illiquid credit and property funds. "Risk-reducing" (or matching) assets have characteristics that are broadly similar in nature to the liabilities. These assets are predominantly bond instruments and bond like instruments that could also include, but not limited to, other financial instruments such as interest rate and inflation swaps, gilt repurchase agreements and Total Return Swaps.

Returns achieved by the investment managers are assessed against performance benchmarks set by the Trustee Directors in consultation with their investment consultant and investment managers.

9. Realisation of Investments/Liquidity

The Trustee Directors recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds), the infrastructure investments referred to in section 6 above are a known exception.

10. Tobacco Manufacturers

The Trustee Directors believe that direct investments by the Plan in tobacco manufacturing companies could be prejudicial to the interests of the University. Where possible, the Trustee Directors seek to invest in ex-tobacco equivalents of equity pooled funds and where this is not possible, the Trustee Directors write an ex-tobacco constraint into their legal agreements with the managers in question. Where reasonable, the Trustee Directors seek to ensure that any possible exposure to tobacco related companies is not as a result of active decisions. For example, there may be some exposure via passive holdings where these companies form part of the relevant indices.

The Trustee Directors recognise that holdings in more complex asset classes such as multi-asset credit and absolute return strategies could result in a small exposure to tobacco companies. Given the nature of these instruments the Trustee Directors are comfortable with such investments.

11. Environmental, Social, and Governance ("ESG") Considerations

In setting the Plan's investment strategy, the Trustee Directors' primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee Directors consider this risk by taking advice from their investment consultant when setting the Plan's asset allocation, when selecting managers and when monitoring their performance.

The Trustee Directors believe that in order to fulfil this commitment and to protect and enhance the value of the Plan's investments, they must act as responsible stewards of the assets in which the Plan invests. As such, the Trustee Directors take an active interest in the social impact of the Plan's investments.

As part of their delegated responsibilities, the Trustee Directors expect the Plan's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee Directors require that, where relevant, their investment managers:

- Seek to understand the social, environmental and governance policies of the companies in which investments are made.
- Consider social, environmental and governance policies alongside other factors affecting long-term prospects, when evaluating companies for investment.
- Consider the Principles for Responsible Investment (PRI) where appropriate.

The Trustee Directors keep the policy on Responsible Investment under review and will have it updated based on the advice received from the Scheme Actuary, investment consultant and investment managers.

The Trustee Directors acknowledge, and are comfortable with the fact, that the structures and objectives of some of the Plan's investments may mean that the investment managers' views on these areas may not impact on investment decisions.

12. Stewardship

The Trustee Directors recognise that effective stewardship of the Plan's assets is an important component of their fiduciary duty to the members and beneficiaries of the Plan. More broadly, the Trustee Directors have adopted an ESG integration approach within their investment decision making processes, whereby the Trustee Directors seek to incorporate all financially material environmental, social and governance risks into investment decisions.

The Trustee Directors have ultimate responsibility for the Plan's investment strategy and have delegated day-to-day management of the Plan's investments to their appointed investment managers. The Trustee Directors monitor their investment managers to ensure that their activities – including on stewardship and responsible investment more broadly – are aligned with the Trustee Directors' requirements and policies as set out in this SIP.

The Trustee Directors carefully review their investment managers' approaches to stewardship and other ESG-related matters and communicate their expectations and standards to their investment managers. These standards include an expectation that the Plan's investment managers and, where relevant, underlying investment managers:

- Use their influence as major institutional investors to exercise the Plan's rights and duties as a shareholder.
- Engage with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.
- Consider collaboration with others, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed.
- Provide adequate transparency to the Trustee Directors around their stewardship activities.

The Trustee Directors engage with their investment managers as necessary for more information to ensure that robust active ownership behaviours, reflective of the Trustee Directors' active ownership policies, are being actioned. The Trustee Directors are supported in this by their investment consultant.

The Trustee Directors review their investment managers' stewardship activities on an annual basis and include a summary of their review in the Trustees' annual report and accounts. As part of this review, the Trustee Directors expect their investment managers to provide:

- A summary of the investment managers' voting activities over the year, setting out in particular where votes were cast against directors, votes against directors were significant, votes were abstained, or voting differed from the voting policy of the investment manager.
- A summary of the investment managers' engagement activities over the year, including the objectives of the engagement and relevance to the fund, the methods of engagement, progress and perspectives around shortcomings and outcomes and procedures for managing unsuccessful engagements.

Where voting is concerned, the Trustee Directors expect their investment managers to recall stock lending, as necessary, in order to carry out voting actions.

The Trustee Directors have identified key areas of concern around climate change risks, corporate governance and their investments' broader social impact and will level scrutiny on their investment managers accordingly. The Trustee Directors expect that their investment managers, where relevant, will actively monitor for these risks within their investment processes and that they will provide transparency on their activities with respect to the mitigation of these risks.

The Trustee Directors consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee Directors may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

13. Activism, and the Exercise of the Rights Attaching to Investments

The Trustee Directors take an active interest in the exercise of voting and other attaching rights of the investments held on their behalf by the Plan's equity investment managers. It is recognised that good corporate governance creates a framework within which a company can be managed in the long-term interests of its shareholders. In consultation with their investment consultant and the investment managers, the following policy has been formulated by the Trustee Directors, which the investment managers have been instructed to implement.

- Use voting rights to support proposals that they expect to enhance shareholder value.
- Use voting rights to oppose proposals that they believe may damage shareholders rights or economic interests.

- Abstain from proposals that have no impact on shareholder value and pose no threat to shareholders' interests.

The Trustee Directors keep the policy on corporate governance under review and will have it updated based on the advice received from the Scheme Actuary, investment consultant and investment managers.

Copies of the statements of the corporate governance policies of the Plan's equity investment managers are available upon request.

14. Members' Views and Non-Financial Factors

In setting and implementing the Plan's investment strategy, the Trustee Directors do not explicitly take into account the views of Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial matters"¹).

15. Arrangements with Investment Managers

The Trustee Directors regularly (typically quarterly) monitor the Plan's investments to consider the extent to which the investment strategy and decisions of their investment managers are aligned with the Trustee Directors' policies, including those on non-financial matters. This includes monitoring the extent to which:

- The investment managers make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- The investment managers engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee Directors are supported in this monitoring activity by their investment consultant.

The Trustee Directors receive regular (typically quarterly) reports and verbal updates from their investment consultant on various items, including on the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee Directors focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan's objectives and assess their investment managers over 3- to 5-year periods depending on the nature of the mandate in question.

Where relevant, the Trustee Directors receive annual stewardship reports on the monitoring and engagement activities carried out by their investment managers (and underlying investment managers where appropriate), which support the Trustee Directors in determining the extent to which the Plan's engagement policy, as set out in this SIP, has been followed throughout the year.

The Trustee Directors believe that they have a duty as institutional investors to invest in a responsible manner and where appropriate will query their investment managers on the rationale for holding significant positions, relative to their respective benchmarks, in companies which contribute significant negative externalities to society.

The Trustee Directors review the portfolio exposure to the following sectors on an annual basis: controversial weapons, gambling, alcohol, pornography, fossil fuels (including thermal coal) and companies that breach fundamental ethical norms. Where appropriate the Trustee Directors will engage with their investment managers to understand the rationale for such investments. Furthermore, the Trustee Directors do not invest in companies that are involved in the manufacturing of tobacco products. Where possible, the Trustee Directors seek to invest in ex-tobacco equivalents of equity pooled funds and where this is not possible, the Trustee Directors write the ex-tobacco constraint into their legal agreements with the managers in question.

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

The Trustee Directors review the carbon intensity of their equity portfolio on an annual basis where this information is available. Where required, the Trustee Directors will engage with managers which have a portfolio carbon intensity that is materially higher than their benchmark.

Before appointing a new investment manager, the Trustee Directors review the governing documentation associated with the investment and consider the extent to which it aligns with the Trustee Directors' policies. Where possible, the Trustee Directors will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, the Trustee Directors express their expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings). Furthermore, the Trustee Directors share their policies with the Plan's investment managers, and request that they review and confirm whether their approach is in alignment with the Trustee Directors' policies.

The Trustee Directors believe that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of their investment managers' performance, level of remuneration and investment strategy, is sufficient to incentivise the investment managers to make decisions that align with the Trustee Directors' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where an investment manager is considered to make decisions that are not in line with the Trustee Directors' policies, expectations, or the other considerations set out above, the Trustee Directors will typically engage with the manager to understand the circumstances and materiality of the decisions made. However, should a satisfactory position not be reached, the Trustee Directors will ultimately replace the manager in question.

There is no set duration for arrangements with investment managers, although the continued appointment for all investment managers is reviewed periodically, and at least every three years. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

16. Cost Monitoring

The Trustee Directors are aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Plan's assets. The Trustee Directors recognise that, in addition to annual management charges, there are a number of other costs incurred by the Plan's investment managers that can increase the overall cost incurred by their investments.

The Trustee Directors will only appoint investment managers who offer full cost transparency via the CTI templates to manage assets of the Plan. This will be reviewed before the appointment of any new managers and includes the existing managers held by the Plan.

Targeted portfolio turnover is defined as the expected frequency with which each investment manager's fund holdings change over a year. The Plan's investment consultant monitors this on behalf of the Trustee Directors as part of the manager monitoring they provide to the Trustee Directors, and flags to the Trustee Directors where there are concerns.

The Trustee Directors accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee Directors' monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustee Directors regularly (typically quarterly) assess the performance of their investment managers and the remuneration of their investment managers on at least an annual basis through the cost data that they collect (which is in line with the CTI templates).

The Trustee Directors assess value for money received from their investment managers on a regular basis by benchmarking their investment managers relative to the wider market. This enables the Trustee Directors to have a detailed understanding of their overall costs irrespective of net of fees performance and to identify opportunities to challenge the Plan's investment managers where a particular manager is an outlier.

The Trustee Directors explore whether a performance fee component is available and suitable before they appoint investment managers.

17. Effective Decision Making

The Trustee Directors recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

To provide appropriate advice, all matters concerning investments have been delegated by the Trustee Directors to an investment sub-committee, with defined membership, responsibilities and duties, and powers. A document describing these arrangements is available to Plan members on request. The Trustee Directors appoint members of the investment sub-committee.

18. Additional Voluntary Contributions ("AVC's") Arrangements

Some members obtain further benefits by paying AVC's to the Plan. The liabilities in respect of these AVC's are equal to the value of the investments bought by the contributions. From time to time the Trustee Directors review the choices of investments available to members to ensure they remain appropriate to the members' needs. The AVC provider is Prudential and details of the available AVC funds are included in Appendix I to this Statement.

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Signature

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For and on behalf of the Trustee Directors of the University of Newcastle-upon-Tyne Retirement Benefits Plan (1971) for Non-Academic Staff