

University of Hull Pension and Assurance Scheme (“the Scheme”) **Statement of Investment Principles**

The following document outlines the Scheme’s Statement of Investment Principles (“SIP”), which sets out the Scheme’s investment objective, the Scheme’s investment strategy, the Trustee’s approach to risk management, issues concerning implementation of the strategy and the policy on governance.

The appendices to this statement contain further detail on the investment strategy and may be updated from time to time without updating this statement.

The Trustee has consulted with the University of Hull (the Principal Employer) with regards to the investment strategy.

The principles outlined in this section of the Statement of Investment Principles became effective following the delegation of certain decision making powers by the Trustee to Aon Investments Limited (the "Fiduciary Manager"). The Trustee has taken advice from its investment advisor, Aon Investments Limited ("Aon") regarding the suitability of the Fiduciary Manager in this capacity.

INVESTMENT OBJECTIVE

The Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting the investment strategy, the Trustee has considered a range of asset allocations that they could adopt in relation to the Scheme’s liabilities. The asset allocation strategy it has selected is designed to achieve a higher return than the return on liabilities while maintaining a prudent approach to meeting the Scheme’s liabilities.

The Trustee has set an investment objective which targets a return in excess of the liability benchmark over rolling three-year periods.

STRATEGY

The initial **asset allocation strategy** chosen to meet the investment objective is set at the discretion of the Fiduciary Manager such that they expect to deliver the expected return and level of liability hedging set by the Trustee. The Fiduciary Manager will monitor the actual asset allocation on an ongoing basis. There is no formal rebalancing in place and so the allocations will vary due to market movements. When it is appropriate to do so, the Fiduciary Manager will adjust the asset allocation.

The Hedging Component aims to take into account the movement in the underlying value of the Scheme's liabilities and the Growth Component is affected by market prices of a broad range of asset classes.

The asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. When choosing the Scheme's planned investment strategy, the Trustee considered written advice from its investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

RISK

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme’s funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). The Trustee and its advisers will manage the Scheme’s cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the Fiduciary Manager appointed by the Trustee, to achieve the rate of investment return assumed by the Trustee (“fiduciary manager risk”). This risk is considered by the Trustee both on the initial appointment of the Fiduciary Manager and on an ongoing basis thereafter.
- The failure by the underlying asset managers chosen by the Fiduciary Manager, to achieve the rate of investment return assumed by the Trustee (“manager risk”). This risk is considered by the Fiduciary Manager both on the initial appointment of the underlying asset managers and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustee has delegated this decision to the Fiduciary Manager. This risk was considered by the Trustee and its advisers when setting the Scheme’s investment strategy. The Fiduciary Manager also considers this risk when implementing the strategy.
- The possibility of failure of the Scheme’s principal employer (“covenant risk”). The Trustee and its advisers considered this risk when setting the investment strategy and consulted with the principal employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review. This will normally be done triennially. Some of these risks may also be modelled explicitly during the course of such reviews.

To allow the Trustee to monitor some of the key risks, it receives quarterly reports which will include information such as:

- Progress of the estimated funding level over the quarter.
- Asset performance versus the estimated growth in the Scheme’s liabilities.
- Any significant issues that may impact the Fiduciary Manager's ability to meet the performance target set by the Trustee.

IMPLEMENTATION

Aon has been selected as investment adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take some decisions themselves and to monitor those they delegate.

The Trustee has delegated all day-to-day decisions in respect of the Scheme's investment to the Fiduciary Manager through a written contract including the allocation of assets between different asset classes and the appointment and monitoring of underlying asset managers. When choosing asset classes and underlying asset managers, the Trustee and Fiduciary Manager are required to have regard to the criteria for investment set out in the Occupational Pension Plans (Investment) Regulations 2005 (regulation 4). The Fiduciary Manager's responsibilities include:

- The movement of assets between the underlying asset managers and realisation of investments to meet external cashflow requirements;
- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Delegating voting and corporate governance as required for the underlying asset managers to meet the performance objectives of the investments they hold.

Environmental, Social and Governance ("ESG") considerations

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes 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 considers this risk by taking advice from its investment adviser when setting the Scheme's asset allocation and when monitoring the Fiduciary Manager.

Arrangements with asset managers

The Trustee recognises that the arrangement with its Fiduciary Manager, and correspondingly the underlying asset managers, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that the Fiduciary Manager is incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

The Trustee receives at least quarterly reports and verbal updates from the Fiduciary Manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives, and assess the Fiduciary Manager over rolling 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its Fiduciary Manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Scheme's Fiduciary Manager and request that they review and confirm whether their approach is in alignment with the Trustee's policies.

The Trustee delegates the ongoing monitoring of underlying asset managers to the Fiduciary Manager. The Fiduciary Manager monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the underlying asset managers are aligned with the investment objectives of the Scheme. This includes monitoring the extent to which the underlying asset managers:

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

Before appointment of a new Fiduciary Manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation or express its expectations (such as through side letters, in writing, or verbally at Trustee meetings) so that there is more alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the Fiduciary Manager, and regular monitoring of the Fiduciary Manager's performance and investment strategy, is sufficient to incentivise the Fiduciary Manager to

make decisions that align with the Trustee's policies and are based on assessments of medium and long-term financial and non-financial performance.

Where the Fiduciary Manager is considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically engage with the Fiduciary Manager to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with the Fiduciary Manager, although the continued appointment will be reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the Fiduciary Manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Cost Monitoring

The Trustee is aware of the importance of monitoring its underlying asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by underlying asset managers that can increase the overall cost incurred by its investments.

The Trustee receives annual cost transparency reports from its Fiduciary Manager. These reports present information in line with prevailing regulatory requirements for managers. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Scheme;
- The fees paid to the Fiduciary Manager;
- The fees paid to the underlying asset managers appointed by the Fiduciary Manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the underlying asset managers appointed by the Fiduciary Manager;
 - The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the underlying asset managers appointed by the Fiduciary Manager;
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees)
- The impact of costs on the investment return achieved by the Scheme.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and underlying asset managers. The Fiduciary Manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the underlying asset managers appointed on behalf of the Trustee.

The Trustee benefits from the economies of scale provided by the Fiduciary Manager in two key cost areas:

- The ability of the Fiduciary Manager to negotiate reduced annual management charges with the appointed underlying asset managers;
- The ability of the Fiduciary Manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the underlying asset managers and achieve efficiencies where possible;

Evaluation of performance and remuneration:

The Trustee assesses the (net of all costs) performance of the Fiduciary Manager on a rolling three-year basis against the Scheme's specific liability benchmark and investment objective. The remuneration paid to the Fiduciary Manager and fees incurred by third parties appointed by the Fiduciary Manager are provided annually by the Fiduciary Manager to the Trustee. This cost information is set out alongside the performance of the Fiduciary Manager to provide context. The Trustee monitors these costs and performance trends over time.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustee has delegated all voting and engagement activities to the Scheme's underlying asset managers, via the Fiduciary Manager. The Trustee is responsible for how the Fiduciary Manager manages assets on its behalf, including the casting of votes in line with each managers' individual voting policies. The Trustee reviews manager voting and engagement policies on an annual basis with the Fiduciary Manager to ensure they are in line with the Trustee's expectations and in members' best interests.

As part of the Fiduciary Manager's management of the Scheme's assets, the Trustee expects the Fiduciary Manager to:

- Ensure that (where appropriate) underlying asset managers exercise the Trustee's voting rights in relation to the Scheme's assets; and
- Report to the Trustee on stewardship activity by underlying asset managers as required.

The Trustee will engage with its Fiduciary Manager as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on the website.

Managers are expected to vote at company meetings and engage with companies on the Trustee's behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

Where possible, the transparency for voting should include voting actions taken and the rationale with relevance to the Scheme, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; voting differed from the voting policy of the Trustee.

Where voting is concerned the Trustee expects the underlying asset managers to recall stock lending, as necessary, in order to carry out voting actions.

The Trustee recognises that its collaborative behaviours can further work to mitigate the risks for the Scheme that we have identified above.

The Trustee will engage with its Fiduciary Manager, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including the

performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made.

This engagement aims to ensure that robust active ownership behaviours, reflective of the Trustee's policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

Should the Trustee's monitoring process reveal that a manager's voting and engagement policies and actions are not aligned with the Trustee's expectations, the Trustee will engage with its Fiduciary Manager to discuss how alignment may be improved to bring about the best long-term outcomes for the Scheme.

Members' Views and Non-Financial Factors

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

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019

GOVERNANCE

The Trustee is responsible for the investment of the Scheme’s assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether the board has the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision making structure:

<p>Trustee Set structures and processes for carrying out its role. Review actual returns versus the Scheme’s investment objective. Select and review a suitable level of target return. Monitor Additional Voluntary Contribution (“AVC”) direct investments (see below). Select and monitor the investment advisers and the Fiduciary Manager. Make ongoing decisions relevant to the operational principles of the Scheme’s investment strategy (where these decisions have not been delegated). Approve this document.</p>	
<p>Investment Adviser Advise on all aspects of the investment of the Scheme’s assets. Advise on this statement. Provide required training. Advise on the Liability Benchmark used by the Fiduciary Manager.</p>	<p>The Fiduciary Manager Set the strategy for investing in different asset classes in line with the investment objective. Determine the strategy for selecting underlying asset managers. Implement the investment strategy. Select and appoint underlying asset managers. Monitor underlying asset managers. Adjust asset allocations to reflect medium term market expectations. Report on asset performance against the liability benchmark. Report on asset returns against objectives. Communicate any significant changes to the investment arrangements. Monitor the funding level.</p>

The Pensions Act 1995 distinguishes between investments where the management is delegated to an asset 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** and in addition the Scheme has three Additional Voluntary Contribution (“AVC”) arrangements, with Aviva UK Limited, Prudential and Utmost Life, which hold pooled investment vehicles. Members are able to switch funds with Aviva UK Limited and Prudential.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the asset manager.

The written advice will consider the issues set out in the Occupational Pension Plans (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the Fiduciary Manager) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the appointed asset managers to manage the assets delegated to it under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Principal Employer over any changes to the investment strategy.

Adopted by the Trustee – November 2023

This Statement of Investment Principles is produced to meet the requirements of the Pensions Act 1995 as amended by the Pensions Act 2004 and to reflect the Government's Voluntary code of conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

University of Hull Pension and Assurance Scheme (the “Scheme”)
Appendices to Statement of Investment Principles

Appendix A

This Appendix sets out the Trustee’s current investment strategy and is supplementary to the Trustee Statement of Investment Principles (the “attached Statement”).

The Trustee’s investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the attached Statement. The details are laid out below:

1 – Asset Allocation Strategy

The Asset Allocation Strategy has been chosen to meet the objective of achieving a 2.5% per annum return in excess of the liability benchmark over rolling 3 year periods. The Trustee has delegated responsibility for monitoring and adjusting the Scheme’s asset allocation to Aon Investments Limited (the "Fiduciary Manager").

2 – The Portfolios

Growth Component

The Growth Component targets a benchmark return of SONIA +4.0% per annum over a full market cycle. The Growth Component is diversified by style, strategy and asset class by investing in underlying funds that may from time to time include equity funds, fixed income funds, debt funds, currency funds, hedge funds and other collective investment plans covering a broad range of asset classes and strategies (“the Underlying Funds”). The Growth Component utilises, through the Fiduciary Manager, an investment process that consists of quantitative and qualitative analyses by which Underlying Funds are screened and regularly monitored. The Underlying Funds selected for the Growth Component are tracked to ensure that, in combination, their strategy, objectives, discipline, transactions, results and outlook continue to remain consistent with the Growth Component's objectives. As a fund of investment funds, the Growth Component is designed to provide investors with the potential to control risk through diversification by investing with several Underlying Funds.

Hedging Component

The allocation of the Hedging Component is held with the Fiduciary Manager who contract with Insight Investment.

The aims of the matching funds in the Hedging Component are to provide returns in line with the liabilities of a typical UK pension Scheme on an exposure basis in the relevant tenures and instruments (long/short, real/nominal). The Trustee has instructed the Fiduciary Manager to implement a target hedge ratio of 91% for interest rate and inflation, as a proportion of Scheme assets.

In the normal course of events, the matching funds will seek to achieve their investment objectives primarily by investing in a combination of a diversified portfolio of fixed income

securities directly or through the use of derivatives and collective investment plans which themselves invest primarily in these instruments.

3 – Other matters

Cash investments and disinvestments

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustee's intention to hold a significant cash balance and this is carefully monitored by the Scheme's administrator.

The underlying asset managers are not permitted to hold cash, other than within the funds themselves and subject to the constraints set by the underlying asset managers.

The Trustee has commissioned Aon to produce this SIP. The Trustee will provide a copy of this SIP on request to Scheme members.

The Trustee recognises that there is a requirement to demonstrate good governance and to be transparent and accountable to Scheme members, therefore an annual review of the underlying asset manager's performance against the agreed benchmarks is available in the Trustee's Annual Report to members. This will also report on any changes to the Scheme's investment strategy.

Quarterly monitoring of the performance against benchmarks will be provided by the Fiduciary Manager.

Last updated: November 2023