University of Sussex Pension and Assurance Scheme

Statement of Investment Principles

1. Introduction

The Trustee of the University of Sussex Pension and Assurance Scheme (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement") to comply with Section 35 of the Pensions Act 1995, Section 244 of the Pensions Act 2004, the Occupational Pension Scheme (Investment) Regulations 2005, the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments.

The Scheme's investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document ("IPID") which is included as an Appendix to this Statement. The IPID will be reviewed promptly in response to any changes to the manager structure or strategy.

In preparing this Statement, the Trustee has consulted the University of Sussex and the Institute of Development Studies (the "Employers") to ascertain whether there are any material issues which the Trustee should be aware of in agreeing the Scheme's investment arrangements.

The Trustee seeks to maintain a good working relationship with the Employers and will discuss any proposed changes to the Statement with the Employers. However, the Trustee's fiduciary obligation is to the Scheme's members, and this will take precedence over the Employers' wishes.

The Trustee will seek to adopt investment arrangements that are in keeping with best practice.

2. Process For Choosing Investments

The process for choosing investments follows the identification of appropriate investment objectives, including the funding objective, projected liability cashflows, target expected return from the Scheme's assets and the appropriate level of risk.

In considering the appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Broadstone Corporate Benefits Limited, who the Trustee believes to be suitably qualified to provide such advice.

3. Defined Benefit Assets

3.1. Investment Objectives

The Trustee's objective is to invest the defined benefit assets in the best interest of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustee has agreed a number of objectives with the Employers to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's primary objectives are as follows:

- To ensure that it can meet its obligations to the beneficiaries of the Scheme; and
- To pay due regard to the Employers' interest in the size and incidence of contribution payments.

Additional objectives are as follows:

- To achieve and maintain full funding on the Scheme's Technical Provisions funding basis;
- To target an expected return from the total Scheme assets which supports the Scheme's Technical Provision funding assumptions and any Recovery Plan, if applicable; and
- To broadly match the projected liability cashflows with the expected cashflows from the Scheme's investments in income generating cashflow matching bonds.

3.2. Risk Management and Measurement

There are various risks to which any defined benefit pension scheme is exposed. The Trustee's policy on risk management is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities.
- The Trustee recognises that whilst increasing risk may increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy and underlying investments in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

The Trustee also takes into account the following risks attached to the investment of the Scheme's assets:

- *Interest rate risk* exists if the projected cash flow profile of the assets held differs from that of the projected liabilities.
- *Inflation risk* exists if the projected cashflows from the assets have different linkages to inflation from the projected liabilities.
- *Credit risk* reflects the possibility that the payments due under a bond might not be made by the issuer, and similarly that the dividends expected from an equity investment might not be paid.
- *Currency risk* will arise through investment in non-Sterling assets, given that the

Scheme's liabilities are denominated in Sterling, because changes in exchange rates will impact the relative value of the assets and liabilities.

- *Volatility risk* concerns the stability of the market value of assets (such as equities), where the price achievable may be particularly affected by short term sentiment and is not certain until the point of sale.

- *Regulatory risk* arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

- *Liquidity risk* arises from holding assets that are not readily marketable and realisable.

- *Concentration risk* arises, for example, when a high proportion of the Scheme's assets are invested in securities, whether debt or equity, of the same or related issuers.

The Trustee also considers the balance between active and passive management, in asset classes where passive management is a practicable option. In determining this balance, the Trustee considers whether active management offers sufficient potential to outperform to justify the additional risks and fees compared with passive management. The risks taken into account include:

- *Active risk* in that the combination of assets held by an active manager will differ from the benchmark and may give rise to underperformance relative to passive management.

- *Tracking error risk* in that a passive manager may not have the skills to track the benchmark index within an appropriate degree of accuracy.

- *Manager selection risk* due to the potential for selecting (or failing to de-select in a timely manner) an active manager that fails to generate sufficient return in excess of the benchmark to justify the active risk taken and the higher fees charged than for passive management.

The documents governing the manager appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The manager is prevented from investing in asset classes outside of their mandate without the Trustee 's prior consent.

Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives regular reports from the investment manager.

The Trustee is a long-term investor and has not set an explicit target to review the duration of its arrangements with the investment manager. However, the duration will be reviewed in conjunction with any review of investment strategy.

3.3. Portfolio Construction

The Trustee has adopted the following control framework in structuring the Scheme's investments subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with that detailed in Section 3.2:

- All other things being equal there is a preference to invest via pooled funds.

- At the total Scheme level, and within the pooled funds, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer.

- Investment in illiquid investments, such as property or pooled property funds, may be held, where this is deemed appropriate.

- Borrowing is not permitted except as to cover short term liquidity requirements.

3.4. Strategic Benchmark and Rebalancing

Following a significant change in investment strategy in late 2022, the Trustee has implemented a liability cashflow matching focused strategy with the initial target benchmark allocation detailed in the table below. The Trustee has not implemented an explicit rebalancing process and the actual asset allocation will therefore be expected to drift away from the initial target benchmark allocation as a result of cashflows and changes in market conditions. Full details of the Scheme's current objective and investment benchmark are set out in the Appendix.

Asset Class	**Initial Target Benchmark Allocation %**
Equities	5.0
Global Equities	*5.0*
Bonds	95.0
Index-Linked Gilts	*60.0*
Corporate Bonds	*35.0*
Total	**100.0**

The Appendix also sets out the Scheme's rebalancing arrangements. It is acknowledged that the actual asset allocation may drift away from the target benchmark allocation set out above. The Trustee will review the Scheme's asset allocation and rebalancing arrangements periodically and can use either an automated process or its discretion (or a combination of these) in rebalancing the Scheme's assets, in conjunction with advice from its Investment Consultant. In addition, the Trustee will consider the appropriate allocation to meet its cashflow matching objective periodically in conjunction with advice from its Investment Consultant.

4. Expected Return

The expected return on the Scheme's total assets will be determined by the underlying asset allocation, and consistent with the objectives set out in Section 3.1.

As at 30 September 2022, the actual expected return on the Scheme's assets, based on the target allocation set out in Section 3.4 and prevailing market conditions, was gilts + 0.7% per annum, which is calculated using the weighted average expected return on equities (gilts + 4% per annum) and corporate bonds (gilts + 1.5% per annum).

5. Additional Voluntary Contributions (AVCs)

Under the terms of the Trust Deed, the Trustee is responsible for the investment of AVCs paid by members. The AVCs are held within the main Scheme assets, as members pay a specified contribution in return for a defined benefit payable from the Scheme. These AVCs are not separately ring-fenced.

6. Realisation of Investments and Portfolio Turnover

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The Trustee expects the investment manager to change underlying holdings only to an extent required to meet its investment objectives. Given the nature of the 'buy and maintain' approach for the management of the Scheme's bond assets and the relatively passive nature of the Scheme's equity investments, the Trustee expects that portfolio turnover will be relatively low. The reasonableness of such turnover will vary by fund and change according to market conditions. The Trustee therefore does not set a specific portfolio turnover target for their strategy or the underlying funds. The investment manager provides information on portfolio turnover and associated costs to the Trustee so that this can be monitored, as appropriate.

7. Environmental, Social, Governance (ESG) risks

The Trustee believes that environmental, social and corporate governance issues including the impact of, and potential policy response to, climate change can be financially material to long-term investment portfolios and should therefore be considered as part of the Scheme's investment process.

The Trustee further recognises that investing with a manager which approaches investments in a responsible way and takes account of ESG-related risks may lead to better risk-adjusted performance as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken. Therefore, other factors being equal, the Trustee would seek to invest in funds which incorporate ESG principles.

Having also considered non-financial matters, and acknowledging that these are potentially important, given the pooled fund nature of the Scheme's investment arrangements the Trustee acknowledges that it cannot directly influence the selection, retention and realisation of investments. It is recognised that pooled funds represent the most practical approach, given the size of the Scheme's assets, and that these will be governed by the individual policies of the investment manager.

To reflect the views above, the Trustee invests the Scheme's equities in an ESG specific fund with explicit alignment to the Paris Climate Agreement and a carbon transition pathway to net-zero by 2050. The equity investments are managed on a passive index-tracking basis via pooled funds, where the underlying index is constructed using ESG criteria. This is in contrast to an actively managed approach where an investment manager can be more selective about the individual companies that it chooses to invest in. The Trustee believes that the current ESG index-tracking approach is appropriate and reflects its preference for a relatively low cost, low governance and simple approach to investing in equities which reflects its views on climate change and broader ESG issues.

In addition, the investment manager is recognised as a market leader in the areas of ESG and engaging with businesses, and through its engagement activities, including voting, the investment manager encourages all of its investee companies to incorporate appropriate sustainability and ESG (including climate change risk) policies into their corporate strategies. The investment manager has a separate dedicated ESG and engagement team which ensures that their approach to ESG is consistently applied throughout the firm and across all of the businesses in which it invests.

The Scheme's investment in pooled corporate bond funds is managed on a semi-active basis, and the investment manager takes into account ESG factors, and the potential financial impact of these, within its investment process for the selection, retention and realisation of investments. The Trustee acknowledges that as bond holders the investment manager will not typically have as much influence on a business as an equity holder, for example, bond holders are unlikely to have voting rights.

The investment manager produces regular reports on its activities in the area of ESG, including the initiatives it takes to influence companies and market participants (including governments and regulators).

Responsibility for monitoring the make-up and development of the capital structure of investee companies is delegated to the investment manager. The Trustee expects the extent to which the investment manager monitors capital structure to be appropriate to the nature of the mandate.

The Scheme is comprised of a diverse membership, expected to hold a broad range of views on ethical, political, social, environmental, and quality of life issues. The Trustee therefore does not explicitly seek to reflect any specific views through the implementation of the investment strategy.

8. Stewardship: Exercise of voting rights and engagement activities

The Trustee believes that good stewardship can enhance long-term portfolio performance and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty.

The Trustee's voting and engagement policy is to use their investments to improve the ESG behaviours of the underlying investee companies. These ESG topics encompass a range of priorities, which may over time include climate change, biodiversity, the remuneration and composition of company boards, as well as poor working practices. The Trustee believes that having this policy and aiming to improve how companies behave in the medium and long term will protect and enhance the value of their investments and is in the members' best interests. The Trustee will aim to monitor the actions taken by the investment manager on its behalf and if there are significant differences from the policy detailed above, the Trustee will escalate its concerns which could ultimately lead to disinvesting their assets from the manager.

Given that the Scheme's investments are in pooled funds, the investment manager is responsible for the exercising of rights (including voting rights) and stewardship obligations related to the Scheme's investments, and the Trustee encourages the manager to exercise those rights in a manner consistent with its policy above.

The Trustee expects its investment manager to monitor investee companies and engage with management on all relevant stewardship matters.

In the Trustee's view, the investment manager takes its engagement responsibilities seriously, and encourages best practice in this area. The investment manager's dedicated engagement team ensures that their engagement policy is consistently applied across all of its investee companies. The manager engages in a broad number of areas, including ESG, diversity, remuneration, sustainability, Board composition, etc, and exercises its voting policy accordingly. The manager publishes regular reports detailing its engagement activities and voting records. The manager regularly votes against companies where it believes this is in its clients' best interests.

The Trustee expects the Scheme's investment manager to discharge its responsibilities in accordance with the principles of the UK Stewardship Code ("the Code") as updated, as far as it is able. The manager reports on the extent of their adherence to the Code, alongside their broader stewardship activities on at least an annual basis.

9. Incentivisation of Investment Managers

The investment manager is primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund. The Trustee does not directly incentivise the investment manager to align the approach it adopts for a particular fund with the Trustee's policies and objectives. Instead, the investment manager and the funds are selected so that, in aggregate, the characteristics and returns produced are expected to meet the Trustee's objectives.

Neither does the Trustee directly incentivise the investment manager to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustee expects such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

10. Conflicts of Interest

The Trustee maintains a separate conflicts of interest policy and register. Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the investment manager, while also setting out a process for their management.

11. Actuary

The Scheme Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree the Employer's contribution rate.

12. Investment Consultant

Whilst the day-to-day management of the Scheme's assets is delegated to an investment manager, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers are taken after receiving written advice from the Investment Consultant. Broadstone Corporate Benefits Limited has been appointed for this purpose.

13. Fee Structures

The investment managers levy fees based on a percentage of the value of the assets under management. Details of the annual fees charged by the investment managers are given in the Appendix. The Scheme Actuary and the Investment Consultant typically work on the basis of time cost; however, in certain circumstances a fixed fee will be agreed.

The appropriateness of the investment manager's remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives, both financial and non-financial.

14. Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone whom the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Chris Crook, Chair of Trustee

On behalf of the Trustee of the University of Sussex Pension and Assurance Scheme

9 November 2023

Date

Appendix - Investment Policy Implementation Document

Introduction

This Appendix is supplemental to the Statement of Investment Principles (the "Statement") and contains the investment policy of University of Sussex Pension and Assurance Scheme (the "Scheme").

Defined Benefit Assets

Investment Strategy

Given the investment objectives in the Statement, the Trustee has implemented the investment strategy detailed in the tables below with Legal & General Investment Management (LGIM). The Trustee believes that the investment risk arising from the investment strategy combined with the risks arising from active management are consistent with the overall level of risk being targeted.

Overall Scheme Benchmark

Following the investment strategy changes carried out in late 2022, the Scheme's initial benchmark asset allocation is set out below.

LGIM Fund	Benchmark %
Equities	**5.0**
ESG Paris Aligned World Equity Index Fund	*2.5*
ESG Paris Aligned World Equity Index Fund – GBP Currency Hedged	*2.5*
Bonds	**95.0**
Maturing Buy & Maintain Credit	35.0
Single Stock Index-Linked Gilts	60.0
Total	**100.0**

Rebalancing Policy

The Trustee has implemented an asset allocation and fund structure which is designed to deliver asset income which broadly matches the level, timing and nature of the Scheme's projected liability cashflows. The Trustee monitors the asset allocation on a regular basis with the assistance of its adviser, Broadstone, and will consider switching assets between funds, for example, to maintain the broad cashflow matching objective.

Therefore, the Trustee has not implemented an explicit rebalancing process and the asset allocation will therefore be expected to drift as a result of cashflows and changes in market conditions.

The Trustee has implemented arrangements for the management of cashflow where asset income is currently swept into a cash fund and regular monthly disinvestments are made from this fund to meet ongoing cashflow requirements.

Day-to-Day Management of the Assets

The assets of the Scheme consist of an insurance policy issued by Legal & General Assurance (Pensions Management) Limited. The underlying management is delegated to Legal & General Investment Management, who were appointed by the Scheme on 20 November 2003.

The Trustee has taken steps to satisfy itself that the manager has the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustee regularly reviews the suitability of the Scheme's investments, including the appointed manager and the use of active management. Any such adjustments would be done with the aim of ensuring that the objectives and overall level of risk is consistent with that being targeted as set out in the Statement.

Investment Structure

The table below illustrates the Scheme's investment structure.

Fund	Benchmark Performance Index	Performance Target
ESG Paris Aligned World Equity Index Fund	Solactive L&G Developed Markets Paris Aligned ESG SDG Index	Track benchmark
ESG Paris Aligned World Equity Index Fund – GBP Currency Hedged	Solactive L&G Developed Markets Paris Aligned ESG SDG Index - GBP Hedged	Track benchmark
Single Stock Index-Linked Gilts	Individual Index-Linked Gilt	Track benchmark
Maturing Buy & Maintain Credit	These funds aim to invest in a diversified range of high credit quality bonds, with the intention that these will be held to maturity.	

Annual Management Charges

The following table sets out the annual investment management charges agreed between the Trustee and the Scheme's investment manager.

Fund	Annual Management Charge
ESG Paris Aligned World Equity Index Fund	0.160% p.a. on the first £5m 0.135% p.a. on the next £10m 0.110% p.a. on the next £35m 0.085% p.a. on the balance above £50m
ESG Paris Aligned World Equity Index Fund – GBP Currency Hedged	0.185% p.a. on the first £5m 0.160% p.a. on the next £10m 0.135% p.a. on the next £35m 0.11% p.a. on the balance above £50m
Single Stock Index-Linked Gilts	0.100% p.a. on the first £5m 0.075% p.a. on the next £5m 0.050% p.a. on the next £20m 0.030% p.a. on the balance above £30m Applies to each individual index-linked gilt fund only.
Maturing Buy and Maintain Credit Funds	0.1% on all assets