



University of Dundee Superannuation & Life Assurance Scheme

Statement of Investment Principles
September 2019

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Disclaimers, confidentiality and non-disclosure

This report has been prepared for you under our terms of engagement for the purpose of performance monitoring. This report is up to date as of September 2019. It is confidential and may not be disclosed (in whole or in part) without our written consent.

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01 Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the University of Dundee Superannuation and Life Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustees of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles'). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Jonathan Seed of XPS Pensions Group and the Investment Adviser is XPS Investment (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with The University of Dundee ('the Employer') and the Advisers and have obtained and considered written advice from the investment adviser. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and the administration of the Scheme. Where it is required to make an investment decision, the Trustees always receive advice from the Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services and Markets Act 2000 ("FSMA"), the Trustees set the general investment policy, but delegate the day-to-day investment of the Scheme's assets to professional Investment Managers. The Investment Managers are authorised under the FSMA and provide the expertise necessary to manage the investments of the Scheme.

01.01 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed:

Keith Swinley

Date:

26-sept-2019

Name:

KEITH SWINLEY

For and on behalf of the Trustees of the University of Dundee Superannuation & Life Assurance Scheme.

02 Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the relevant Advisers. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

The Trustees have decided not to appoint an Investment Sub-Committee to deal with investment matters.

03 Investment Objectives

The Trustees have set the following objectives:

- To have sufficient assets to pay benefits as they fall due;
- To target an expected long term rate of return consistent with the agreed funding approach and sufficient to improve the funding level of the Scheme;
- To pursue an investment strategy at an acceptable level of risk to the Trustees and subject to an acceptable level of cost to the Employer;
- To pursue a strategy consistent with the strength of the Employer's covenant, to be monitored by the Trustees on a regular basis; and
- To adhere to the provisions contained within this SIP.

The Trustees believe the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

04 Asset Allocation Strategy

The Trustees intend to meet the investment objective by investing in a diversified portfolio of return-seeking and liability-matching assets.

The Trustees can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership

The current strategic target asset allocation is set out in Appendix B.

04.01 Investment Restrictions

The Trustees intend to adhere to the following restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Scheme's Investment Managers in line with their overall investment objectives, policies and procedures.

04.02 Rebalancing Policy

Cash inflows into the Scheme and cash outflows from the Scheme will be invested or disinvested after taking advice from the Investment Adviser.

04.03 Rates of Return

The target rates of return for each asset class are detailed in Appendix B.

04.04 Diversification

The Trustees have sought to achieve diversification by investing in pooled funds which have investment restrictions i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers. The Trustees have chosen to invest in diversified growth funds to increase the level of diversification and are comfortable with the overall level of diversification in the investment strategy. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

Asset Allocation Strategy

continued

04.05 Suitability

The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its investment objectives.

The Trustees have chosen to hold a portion of the Scheme's assets in pooled funds invested in an LDI solution (the 'off-risk' assets) to provide some degree of matching with the Scheme's liabilities.

The aim of the return-seeking assets is to provide additional expected return above that achieved by the off-risk assets, consistent with the investment objectives.

Recognising that non-sterling investments carry an element of currency risk the Trustees have a policy of holding substantially all of the assets in Sterling-denominated investments, to match the Scheme's liabilities.

04.06 Liquidity

The majority of the non-cash assets are held in pooled funds with frequent dealing dates.

05 Strategy Implementation

05.01 Mandate and Performance Objectives

The Trustees have received advice on the appropriateness of each pooled fund that the Scheme is invested in from the Advisers and believe them to be suitable to meet the Scheme's investment objectives. The benchmark for each fund currently held and its objectives are set out in Appendix B.

05.02 Manager Agreement

The scheme is invested in pooled funds and as such there is no formal agreement between the Trustees and an individual fund manager relating to investments in each asset class.

05.03 Custody

Custody of the underlying assets is at the discretion of the pooled funds, whilst shares and/or units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

06 Monitoring

06.01 Pooled Funds

The Trustees, or the advisers on behalf of the Trustees, will monitor the performance of the funds against the agreed performance objectives.

The Trustees, or the Advisers on behalf of the Trustees, will regularly review the performance of the funds to satisfy themselves that the funds remain suitable.

If the Trustees are not satisfied with the performance of the funds they will ask the manager of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustees' requirements, they will look to purchase other funds - potentially with a different manager - after consultation with the Investment Adviser.

06.02 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

06.03 Other

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

07 Fees

07.01 Funds

The Trustees will ensure that the fees charged by funds and their expense ratios are consistent with levels typically available in the industry for passive funds. The current fee basis for each of the funds is set out in Appendix B.

The Trustees are aware of the investment manager policy regarding soft commission arrangements. Information about the investment manager's fees, commissions and other transaction costs is available in the annual report of the pooled funds in accordance with the Financial Conduct Authority ('FCA') Disclosure Code.

07.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

07.03 Custodian

There is no custodian appointed directly by the Trustees.

07.04 Trustees

The professional Trustee is paid for their duties. None of the other Trustees are paid directly for their duties. Their expenses are met and they are given time off from their other employment duties to attend the periodic Trustees' meetings.

08 Risks

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

- i. The risk of failing to meet the objectives as set out in Section 3 – the Trustees will regularly monitor the investments to mitigate this risk.
- ii. The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target.
- iii. Risk of lack of diversification of investments – addressed through investing in pooled funds with diversification requirements and through the asset allocation policy.
- iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates.
- v. Underperformance risk – addressed through monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.
- vi. Organisational risk – addressed through regular monitoring of the Investment Manager and the Advisers.
- vii. Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.
- viii. **Environmental, Social and Governance risk** – the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustees will keep these risks under regular review.

09 Other Issues

09.01 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

09.02 Environmental, Social and Governance

The Trustees have considered its approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Scheme and believes there can be financially material risks relating to them. The Trustees have therefore agreed a policy reflecting its beliefs around these factors in relation to the selection, retention or realisation of investments. The policy is implemented through a combination of investment mandate guidelines with the Scheme's investment managers and a requirement that the investment managers take ESG and climate change risks into careful consideration in relation to any portfolio management decisions taken outside of those guidelines.

The Trustees will seek advice from the Investment Adviser on the extent to which its policy on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought nor taken into account the beneficiaries' views on risks including (but not limited to) ethical, social and environmental issues.

Specifically when making investment decisions the Trustees consider the following key aspects of the University's Ethical policy:

- Focus investments towards
 - low carbon industries
 - impact investments with wider social benefit
- Apply exclusions in relation to the following aspects:
 - avoiding companies producing armament
 - avoiding companies involved in tobacco manufacturing

09.03 Voting rights

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and requires them to engage with investee companies and vote whenever it is practical to do so on

financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Appendix A

Responsibilities

Trustees

The Trustees of the Scheme are responsible for, amongst other things:

- i. Determining the investment objectives of the Scheme and reviewing these from time to time.
- ii. Agreeing an investment strategy designed to meet the investment objectives of the Scheme.
- iii. Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.
- iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
- v. Assessing the quality of the performance and process of the pooled funds by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
- vi. Selecting pooled funds which are consistent with the investment strategy after consultation with the Advisers.
- vii. Assessing the ongoing effectiveness of the Advisers.
- viii. Consulting with the Employer when reviewing investment policy issues.
- ix. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- x. Informing the Advisers of any changes to Scheme benefits, significant changes in membership.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

- i. Participating with the Trustees in reviews of this SIP.
- ii. Advising the Trustees how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.
- iii. Advising the Trustees of any changes in the funds that could affect the interests of the Scheme.
- iv. Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current pooled funds and advising on the selection of new funds.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

- i. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

Appendix A Responsibilities continued

- ii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.
- iii. Advising the Trustees of any changes to contribution levels and funding level.

Appendix B

Pooled Funds

The following asset allocation reflects the proposed strategy presented to the Trustees in September 2019.

The Trustees have appointed four Investment Managers to manage the assets of the Scheme:

Manager	Fund	%	Investment Style
Aberdeen Standard	Equity Linked LDI	17.5	Passive
	Multi Sector Private Credit Fund	10	Active
LGIM	LDI	20	Passive
	Dynamic Diversified Fund	18.75	Active
Partners Group	Partners Fund	15	Active
Baillie Gifford	Diversified Growth Fund	18.75	Active

Expected Returns and Performance Monitoring

The performance targets for the funds are as follows

Fund	Benchmark Index	Objective
Equity Linked LDI	Equity portion to track equity indices. LDI portion to outperform the change in the present value of the liability benchmark over the long term	To provide exposure to global equities and hedge changes against interest rates and inflation expectations
Multi Sector Private Credit Fund	n/a	To provide a yield of 4.0-5.0% p.a.
LDI	Index produced in conjunction with Markit – designed to include both swaps and gilts	To move broadly in line with the movements of the Scheme's liabilities.
Dynamic Diversified Fund	Bank of England base rate	To outperform the index by 4.5% p.a. gross of fees over a full market cycle (typically 5 years)
Partners Fund	n/a	Return target of 8 -12% p.a. net of all fees
Diversified Growth Fund	Bank of England base rate	To outperform the index by 3.5% p.a. net of fees over rolling five

Appendix B Pooled Funds continued

year periods with an annual
volatility of less than 10%

Fees

The investment management fees paid to the Investment Manager are as follows:

Asset Class	Fee % p.a.
Equity Aware LDI	0.30%
Multi Sector Private Credit Fund	0.40%
LDI	0.24%
Dynamic Diversified Fund	0.38%
Partners Fund	1.50%
Diversified Growth Fund	0.65%



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