Statement of Investment Principles – DB Section

The Trustee's policy on investment matters

June 2023

Superannuation Arrangements of the University of London

Pension Scheme Registry (PSR) number: 10125215

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SAUL's Vision

A sustainable and affordable, well-managed Scheme, which is valued by members and employers alike

1 – Introduction

1.1 About SAUL

SAUL Trustee Company (STC) is Trustee and administrator of the Superannuation Arrangements of the University of London (SAUL or the Scheme). The Scheme started in 1976 and was established to provide retirement benefits for non-academic employees of the University, although all staff are eligible to join. It covers c.50 colleges and institutions that have links with higher education, mainly in the south east of England, including most of the Colleges of the University of London, Imperial College, the Royal College of Art and the Universities of Kent and Essex.

From 1 April 2023, SAUL established a Defined Contribution (DC) Section for the first three years of SAUL membership, before Members are automatically moved to the Defined Benefit (DB) Section (unless they elect otherwise).

This Statement relates only to the DB Section of the Scheme.

1.2 Governance overview

Twelve Directors make up the Board of the STC, which is the Trustee of SAUL. The Trustee is responsible for the investment of SAUL's assets and setting the investment objectives. Its investment powers are set out within the Scheme's governing documentation and relevant legislation.

The Trustee appoints the members of the SAUL Investment Committee (IC), which reports to the Trustee and manages all matters relating to the investment of the assets of the Scheme. The IC has formal Terms of Reference and Delegated Authority agreed by the Board.

The Trustee has agreed a Pension Return and Risk Management Framework (PRRMF), which guides the IC in setting the investment strategy for managing the Scheme's assets and liabilities together with the associated risks.

The IC has drawn up a set of SAUL investment beliefs that take into account the nature of the Scheme's liabilities. A copy of SAUL's Investment Beliefs is available on the SAUL website: www.saul.org.uk. These also assist the IC in its consideration of investments, and they are reviewed at least every three years.

The day-to-day management of the assets is delegated to professional investment managers. The policies that affect day-to-day management are set out in Section 7 of this Statement.

The Trustee employs a Chief Investment Officer (CIO) to monitor the investments, investment managers and other service providers on a day-to-day basis and, working with the advisers, provides support and guidance to the IC and Trustee on investment matters.

The Trustee has adopted, and will review regularly, a Corporate Governance and Shareholder Engagement policy and a Responsible Investment policy, both of which include guidelines for shareholding voting and engagement. This approach is summarised in Section 9 of this Statement.

1.3 About this SIP

The Trustee is required to produce a SIP for the Scheme in accordance with the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005. In preparing this Statement, the Trustee has taken proper written advice and has consulted with the Employers and Unions.

The Trustee and IC refer to this Statement when making investment decisions to ensure that those decisions are (as far as reasonably practicable) consistent with these principles.

This SIP is effective from 1 June 2023.

2 – Actuarial funding and strength of employer covenant

The Scheme's actuarial funding and the strength of the Covenant (the ability of the sponsoring employers to back the Scheme) are major influences on the investment approach.

The Scheme's Statement of Funding Principles (SFP) sets out the basis on which SAUL is funded and, because the investment return on the assets is a key element of the assumptions in the SFP, it is closely linked to this Statement.

A copy of the SFP is available on the SAUL website: www.saul.org.uk.

The Employer Covenant is reviewed on a regular basis by the Trustee's covenant adviser. Any change may be reflected within the investment strategy.

3 – Investment objectives

The Scheme builds up a fund by investing the contributions paid by members and employers. The cash and other investments are the assets of the Scheme. The Scheme holds the assets to cover payments that may be made under the Scheme Rules to members and their families in the future. These payments are the liabilities of the Scheme. As more members build up service in the Scheme and their salaries rise, the liabilities of the Scheme grow.

The Scheme Actuary calculates an estimate of the present-day value of the liabilities and compares it with a current value of the assets. The comparison of assets to liabilities is called the funding level (or funding ratio). An explanation of the Scheme Actuary's methods and conclusions is set out in the Actuarial Valuation Report. The exact future values of the assets or of the liabilities cannot be predicted, which means that a sensible investment management strategy will allow for various "risks".

The Trustee will act in the best financial interests of all classes of Scheme members, seeking to ensure that the assets are invested in a way which is expected to secure the benefits offered by the Scheme.

The Trustee sets the investment strategy using its PRRMF together with a risk-budgeting approach which considers financial risk measures such as Funding-Ratio-at-Risk (FRaR) and Value-at-Risk (VaR).

The Trustee's overarching aim is to ensure that the fund has sufficient assets to meet the cost of the promised benefits as they fall due.

As such, the Trustee's primary investment objective is to generate a sufficient return to target a strong funding level on the Scheme's Technical Provisions Funding basis[1], when allowing for future accrual and contributions over a rolling 10-year period or over a timescale consistent with any recovery plan agreed by the Trustee, if shorter.

In setting the investment strategy the Trustee aims to:

i. keep contribution rates for employers and members as stable as possible (by aiming to limit funding level volatility)

ii. manage the risks associated with the assets and liabilities

iii. provide suitable liquidity of assets such that the Trustee is not forced to buy and sell investments at particular times and can pay all pensions as they fall due, and

iv. maximise the return earned by the investments over the long term.

(All within a suitable level of risk, as measured by FRaR and VaR.)

The Trustee believes that the strategy used is reasonably expected to achieve these goals.

4 – Risk

4.1 Risk identification

All pension schemes are exposed to various risks. The Trustee recognises the following main risks involved in the investment of the assets:

i. the risk that the assets could be insufficient to cover the ongoing liabilities of the Scheme

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[1] Full details of the Scheme's Technical Provisions Funding Basis can be found in the Statement of Funding Principles (a copy of which is included in the latest Actuarial Valuation Report – available on SAUL website: www.saul.org.uk).

ii. the risk that the characteristics of the assets are not the same as the characteristics of the liabilities, e.g. interest rate and inflation sensitivity. As such, the values of assets and liabilities could move in different directions and the funding level calculated on a specific basis for SAUL, which has been agreed by the Trustee, could decline. This could be due to nominal and/or real bond yields falling.

iii. the risk that insufficient liquid assets are held to meet collateral requirements for derivatives

iv. the risk that, due to fluctuations in investment markets, the assets could be lower than the liabilities at the point of a formal (normally triennial) actuarial valuation

v. the risks resulting from not fully integrating sustainability and Environmental, Social and Governance (ESG) related factors within the investment decision making framework. This also extends to climate change risk identification

vi. risks, such as counterparty risk, that are inherent in using products such as derivatives and securities lending programmes

vii. the risk of one or more employer defaulting on their obligations to SAUL

viii. the risk that the investment growth may not live up to the Trustee's expectations

ix. the risk that values of asset classes, and the individual investments in each asset class, may fluctuate, and

x. the risk that an investment manager may not deliver the expected performance.

4.2 Risk management

Risks are managed (but not eliminated) through a variety of methods, including:

i. holding UK Government bonds (Gilts) and derivatives, such as Gilt Repurchase agreements, interest rate swaps and inflation swaps to reduce the risk to the Scheme's funding position arising from adverse movements in interest and inflation rates affecting the less mature liabilities

ii. holding income producing assets to notionally cashflow match some of the more mature pensioner liabilities to reduce the risk to the Scheme's funding position arising from adverse movements in interest rates and inflation

iii. ensuring that the proportion of interest rate and inflation risk is hedged at an appropriate level, in order to reduce funding level volatility associated with changes in interest rates and inflation

iv. diversifying investments across asset classes, geographical boundaries, investment styles and investment managers

v. ensuring that the level of exposure to illiquid assets (which can take time to sell) is sized appropriately

vi. taking a long-term view of investment markets and not being swayed by short-term events and trends

vii. regular monitoring of manager performance, monthly monitoring of overall Scheme performance (both assets and liabilities) by the CIO and also through discussion and analysis from the Strategic Investment Consultant

viii. at least a quarterly review of the asset allocation, the expected return on the assets, the required and target returns in the PRRMF and the risk measures

ix. at least monthly monitoring of leverage (including Liability Driven Investment (LDI) leverage) and the collateral requirements supporting these derivative positions

x. quarterly monitoring of derivative exposure to individual counterparties

xi. integrating sustainability and ESG considerations into investment decision making and monitoring each investment managers' integration and reporting of such considerations. This also extends to climate change

xii. analysis of the strength of the employer covenant by an external covenant adviser and the use of warning signals to identify those employers who are less strong financially and for whom the risk of default, therefore, is higher

xiii. use of an independent, qualified and experienced Strategic Investment Consultant, and

xiv. regular training for members of the Board, IC and the Executive.

4.3 Risk measurement

The Trustee measures these identified risks through a variety of means. Some are measured using its PRRMF based on information from the CIO, Scheme Actuary and the Strategic Investment Consultant. Other risks are measured using information from the investment managers, with performance verified independently by a third party.

The aim of the risk measurement is to ensure that appropriate risk is being taken to provide the best possible chance of achieving a long-term rate of return that, after fees, matches or exceeds the rate of increase in the value of the liabilities.

5 – Asset allocation and investments held

The IC sets the asset allocation, i.e. both the kinds of investments to be held and the balance between different kinds of investments, such that the expected investment return on assets is at or above that required within the PRRMF whilst remaining within the agreed risk budget.

Being an open scheme, SAUL has an investment horizon of over 50 years. In order to meet our long-term funding objectives, the Trustee appoints specialist asset managers across a range of investment strategies with a long-term focus.

Both an overlay and physical bonds are used within the LDI programme to reduce interest rate and inflation risk whilst also investing in assets offering higher expected returns, e.g. equities, to better meet the required return. Other asset classes are used to target required returns whilst also reducing the Scheme's reliance on equities, which can be volatile over the short term, thereby diversifying sources of expected return and risk.

Derivatives are used for risk reduction (e.g. inflation and interest rate hedging), return enhancement and efficient portfolio management. Derivatives can provide greater exposure than the physical holdings and it is important to manage the risks associated with these exposures through holding appropriate collateral buffers.

The IC aims to maintain an allocation to bond and bond-like assets and/or risk-hedging instruments over time, as the Scheme's funding position allows, in order to achieve the risk objectives within the PRRMF. Triggers to increase risk-hedging and the bond/bond-like portion of assets may be set up as dictated by improvements in SAUL's financial position.

A strategic allocation is set to achieve the appropriate risk and return characteristics.

6 – Expected return on investments

The IC monitors any gap between target return within the PRRMF and the expected return on the portfolio, on a quarterly basis (and will make any changes to strategy should it move significantly). If the expected return significantly exceeds the target return, risk reduction may be appropriate and vice versa when expected return is below the target return.

Expected returns used are based on assumptions provided by the Strategic Investment Consultant.

Over the longer term, it is expected that the return on the investment portfolio will exceed the growth in the liabilities as detailed within the PRRMF, reducing the need for increases in the contribution rate and improving the funding position.

7 – Day-to-day management of the assets

7.1 Introduction

Having set the parameters within its PRRMF, the Trustee delegates the meeting of the primary investment objective, the resulting asset allocation strategy and selection of investment managers to the IC. Following appropriate advice, the IC sets an allocation to a range of asset classes and strategies. Investment managers have been carefully selected to manage each of the underlying mandates following advice from investment consultants.

7.2 Main assets

The Trustee has outsourced the day-to-day management of the assets to a number of investment managers. The IC has taken steps to satisfy itself that the managers have the appropriate knowledge and experience to manage the Scheme's investments. The managers are regularly monitored by the CIO to ensure they are carrying out their work competently. This may be supplemented with analysis provided by an investment consultant.

From time to time, managers and/or mandates are changed. This is done after due consideration and the receipt of appropriate advice from an investment consultant.

The IC has determined, based on expert advice, an asset allocation to a mix of asset types and mandates within which each appointed investment manager operates.

The IC regularly reviews the suitability of the Scheme's investments including the appointed managers.

A list of the managers is included in the Trustee's Annual Report and Financial Statements, a copy of which is available on the SAUL website.

7.3 Rebalancing policy

Over time, the actual balance of assets in the Scheme will change. This will be because the performances of the various investment markets and of the investment managers will differ. The IC recognises this and considers when and how to rebalance assets based on the expected return and risk of the portfolio compared to the objectives defined within the PRRMF.

The asset allocation is monitored by the CIO on a monthly basis and rebalanced as appropriate towards the IC's strategic asset allocation. Any changes are reported to the IC on a quarterly basis.

7.4 Appointment of investment managers

The IC has appointed investment managers to manage the assets. The appointment of each manager is a careful process, with advice and guidance received both verbally and in writing from an investment consultant an integral part of the process. The Trustee seeks to incorporate performance and, sustainability and other ESG requirements into new investment manager agreements.

All managers are monitored regularly; regard being paid not only to their investment performance to date, but also to their expected future investment performance. This includes their performance of integrating and reporting of sustainability and ESG considerations. In cases where the IC is of the view that a manager is unlikely to meet its requirements, it may replace the manager.

7.5 Monitoring the investment managers

The performance of each investment manager is monitored by the CIO on a monthly and quarterly basis. The CIO also meets with all managers regularly. Performance is measured against public market benchmarks (where appropriate) as well as against the manager's long-term performance targets, both of which are agreed by the Trustee at the outset of the mandate. A third party has been appointed to provide independent performance measurement to assist the CIO in monitoring the investment managers.

The Trustee's focus is on returns over periods longer than one year (three to five years on average), however the Trustee also engages with the investment managers should any short-term "style-drift" movements or major changes in asset allocation be observed.

7.6 Investment manager arrangements

The Trustee ensures that investment managers appointed invest their portfolios consistent with the policies set out in this Statement. The Trustee seeks to include its investment principles within manager agreements, with particular reference to its sustainability and ESG approach.

Furthermore, to maintain alignment (as far as practicable), the investment managers are provided with the most recent version of this Statement and are encouraged to highlight any inconsistencies.

7.7 Investment manager remuneration

Remuneration for each investment manager is agreed at the outset of each mandate and is reviewed periodically to ensure that it remains appropriate and aligned with the long-term nature of the liabilities and investment objectives.

The Trustee believes that performance-related fees are appropriate in certain circumstances and, where these fees are paid, SAUL ensures that these reward medium to long-term performance relative to a suitable hurdle.

7.8 Realisation of investments

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

In general, the investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.

In the event that the Scheme's cash flow is negative, the IC (with reference to the strategic asset allocation) decides from which asset classes and individual funds assets should be realised to meet cash flow needs.

7.9 Liquidity

The liquidity of the portfolio as a whole is monitored by the CIO and Strategic Investment Consultant and reported to the Trustee and IC on at least a quarterly basis. The Scheme has a long-time horizon with some benefits not payable for fifty years or longer and so can invest prudently in some illiquid assets with the aim of benefitting from any illiquidity premium.

The IC considers the level of liquidity (setting an illiquidity budget where appropriate) and expected income from illiquid assets on an overall Scheme basis when making any significant changes to the investments.

7.10 Portfolio Turnover and costs

A high level of turnover and resulting transaction costs can have a detrimental impact over the long-term. As a result, the IC monitors the level of transaction costs and turnover at least annually.

7.11 Cash balances

Working cash balances are held separately and are managed by both the custodian and the STC office. The cash is invested both in the overnight money markets and in pooled money market funds in order to ensure that reasonable rates of return are achieved whilst also managing counterparty risk.

8 – Performance measurement

The Trustee measures the performance of itself, the IC, the Strategic Investment Consultant and the individual managers. The PRRMF is used to assist in this exercise. As stated in Section 7.5 above, the Trustee has appointed a third party to provide independent performance measurement to help in the process of measuring the performances of the managers who are measured against benchmarks over appropriate periods.

Performance of the investment strategy is reported in the Trustee's Annual Report and Financial Statements, which is available on SAUL's website. The Trustee measures SAUL's aggregate performance (both before and after costs) against the long-term objectives using suitable comparators.

The IC uses services provided by third parties to aggregate and compare the management fees, performance-related fees, transaction costs (including lending and borrowing costs), costs of custodian services, foreign exchange and other trading or administrative costs in order to ensure that the Scheme receives value for money. This analysis is considered by the IC and the Board on an annual basis.

9 – Sustainability and ESG issues

9.1 Introduction

The Trustee's investment objectives are set out in Section 3. The aim of these objectives is to ensure that the fund has sufficient assets to meet the cost of the promised benefits as they fall due. It is these objectives that drive the asset allocation policy and other strategic decisions.

The Trustee believes that integrating sustainability and ESG considerations that incorporate a range of factors within investment decision making can protect and enhance value of the Scheme in the long-term. These risk factors include a company's strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance. This also extends to climate change risk management, where companies should be able to demonstrate sufficient knowledge at board level to understand the risks (and opportunities) of climate change, along with the impact of any climate-specific pledges they publicise. The Trustee requires all its investment managers to integrate these considerations into the decision-making process for the Scheme's investments where they deem them to potentially have an effect on company performance.

SAUL has been a signatory to the UN-backed Principles for Responsible Investment (PRI) since 2013 and reviews periodically membership of other organisations or industry initiatives to help meet our ESG goals, promote best practice and encourage positive change.

When relevant, the Trustee requires its investment managers to invest with a medium to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective investment managers to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

9.2 Voting approach

The Trustee has appointed Pension & Investment Research Consultants Limited (PIRC) to carry out all proxy voting in line with the Trustee's Corporate Governance and Shareholder Engagement Policy so that shareholder votes are carried out in a consistent manner across the shareholdings.

PIRC also ensure that SAUL's voting intentions are communicated to each company before each shareholder meeting. Where any investment managers have conflicting views, these are discussed with the CIO in consultation with a Trustee Director, following which a decision will be taken as to how SAUL's vote will be cast.

Where SAUL uses pooled funds, the CIO will review the managers' voting policy, noting differences to SAUL's voting policy, and will monitor the managers' implementation of their policy.

9.3 Engagement approach

The Trustee invests in multiple companies across the globe through a number of asset classes and recognises that it has a fiduciary duty, through engagement, to ensure that these companies have adequate corporate governance mechanisms for the benefit of SAUL's members. Engagement also provides a forum to tackle ESG issues, all of which contribute to long-term sustainability and value creation. Engagement is also an important relationship building tool and ensures better understanding of the rationale of management regarding business risks, opportunities and strategy.

In order to ensure that effective company engagement takes place, the Trustee delegates most of its engagement activities to its investment managers but has also appointed PIRC to help it engage with companies on issues that are particularly important to SAUL. The Trustee requires its investment managers to report on pertinent engagements to the IC on a quarterly basis.

The Trustee recognises that, given resource constraints, there are limits to the influence that it can achieve on its own and so SAUL will focus mainly on collaborative engagements with other interested parties, and will continue to review the merits of these on a case-by-case basis.

9.4 Climate change

Although the Trustee has a focus on integrating broad ESG considerations within the investment strategy, it has also agreed a specific approach to managing the risks posed by climate change to help meet its fiduciary duty to ensure its long-term obligations can be met.

The Trustee has committed to a target of Net Zero by 2050 (or sooner) and will seek to reduce the carbon footprint of its investment portfolio by 50% by 2030. Furthermore, the Trustee has agreed to exclude companies that generate more than 5% of their annual revenues from oil sands (extraction and exploration) and thermal coal (extraction, exploration and generation of electricity).

Further details of the Trustee's approach to climate change risk management can be found in SAUL's Responsible Investment Policy – DB Section.

9.5 Approach to exclusions

If, following a financial risk assessment and appropriate advice, there are concerns that holding a company or sector would impact on the long-term sustainability of the Scheme (and engagement is unlikely to lead to positive change) the Trustee may consider excluding certain companies or sectors.

Full details of the Trustee's approach to voting, engagement, exclusions, sustainability and environmental, social and governance considerations can be found in both SAUL's Corporate Governance and Shareholder Engagement policy and the Responsible Investment policy - DB Section.

10 – Conflicts of Interest

SAUL has a robust internal conflicts of interest policy in relation to the directors and external members appointed to various internal Boards and Committees, and some members of STC staff (members of the Executive Team and STC Investment Team). The Company Secretary maintains a comprehensive register of declared interests and conflicts which is updated formally on an annual basis. Should SAUL undertake company engagement directly we would ensure that any declared conflicts are managed appropriately.

If a perceived conflict of interest occurs between PIRC and a particular company (for example, if PIRC has advised the proponents of a shareholder resolution), PIRC declares this in its report to SAUL. If PIRC is engaging with a company on SAUL's behalf, it will state any potential conflict at the outset of the meeting and decide with the company whether engagement can proceed. It is always clarified that PIRC is only attending to represent the client's views, and not those of PIRC.

PIRC is regulated by the Financial Conduct Authority and requires all its employees to complete a declaration of interests.

SAUL requires that its investment managers and other service providers disclose any changes to their conflicts of interest policies and any conflicts that fall outside their policies on a quarterly basis. These are reviewed by the CIO with any issues being escalated to the IC for further action.

11 – Code of Practice for Institutional Investment Decision Making

SAUL complies with the six points of the Code of Practice for Institutional Investment Decision Making.

12 – Compliance with this Statement

The Trustee will supply the investment managers with a copy of this Statement and will advise them promptly of any material change to it. Each investment manager has a duty under the Pensions Act 1995 to operate in line with the Statement as far as is reasonably practicable.

13 – Reporting against this Statement

13.1 Implementation statement

The annual statement of compliance with this Statement will be compiled using data at the Scheme's year end (31 March) each year and will be included in SAUL's annual report and accounts, which will be available on SAUL's website. In line with the legislation, it will: cover the following:

- set out how, and the extent to which, the Scheme's policies on stewardship from the SIP have been followed during the Scheme year, and

- describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on their behalf) during the Scheme year, stating any use of the services of a proxy voter.

13.2 Task Force on Climate-related Financial Disclosures (TCFD) report

The annual climate change risk management report (using the TCFD principles) will be compiled using data at 31 March each year and will be published (when required by the legislation) alongside SAUL's annual report and accounts, both of which will be available on the website.

14 – Review of this Statement

The Trustee will review this Statement at least every three years or more frequently in response to any material changes to any aspects of the Scheme. These could include changes to liabilities or finances. Any change in the attitude to risk of the Trustee or of the Scheme's sponsoring employers could also trigger a review since it could have a bearing on the stated policy.

In accordance with its statutory obligations, the Trustee takes written investment advice and will consult the employers who sponsor the Scheme as part of that review process should changes to this Statement be proposed.

If you would like more information about the Scheme, please write to:

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