

Durham University Pension Scheme (the “Scheme”)

Statement of Investment Principles (the “Statement”)

1. Scope of statement

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

The effective date of this Statement is September 2021. The Trustees will review this Statement and the Scheme's investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

2. Consultations made

The Trustees have consulted with the Employer, Durham University, on this Statement and will take the Employer's comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of the Scheme. The Trustees have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited (“Aon”), who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Scheme's assets has been delegated to fund managers which are authorised and regulated by the Financial Conduct Authority. A copy of this Statement is available to the members of the Scheme.

3. Objectives and policy for securing objectives

The Trustees' objectives for setting the investment strategy of the Scheme have been set with regard to the Scheme's Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees' primary objectives are:

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

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

4. Asset allocation strategy

Asset Class	Strategic Weight (%)	Range (%)
Equities	30.0	25.0 – 35.0
Property	10.0	5.0 – 15.0
Multi-Asset Credit	10.0	5.0 – 15.0
Illiquid Credit	20.0	15.0 – 25.0
Matching Portfolio	30.0	25.0 – 35.0

The Trustees have set a strategic interest rate and inflation hedge ratio target of 80% (as a proportion of Technical Provisions liabilities).

5. Investment risk measurement and management

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustees take advice (using asset and liability modelling techniques) on the continued appropriateness of the existing investment strategy.

Risks associated with changes in the Employer covenant are assessed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy) and also by reviewing the Employer's annual report and accounts. The Trustees also have an agreement with the Employer to receive notification of any events, which have the potential to alter the creditworthiness of the Employer. In particular, the Trustees will be informed of Type A events (events that are materially detrimental to members and/or the ability of the Scheme to meet its pension liabilities), as defined in appropriate guidance issued by the Pensions Regulator and Employer-related Notifiable Events. Also the Employer will give notice if placed under 'Special Measures' by the Higher Education Funding Council for England. On receipt of any such notifications, the Trustees will re-consider the continued appropriateness of the Scheme's existing investment strategy.

The Trustees monitor the risks arising through the selection or appointment of fund managers on a quarterly basis via investment monitoring reports prepared by their professional advisers. Expected deviation from the benchmark (for passive managers) and performance targets (for active managers) is detailed in the Scheme's Summary of Investment Arrangements. The Trustees have appointed Aon to alert them on any matters of material significance that might affect the ability of each fund manager to achieve its objectives.

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

For due diligence purposes, both the Trustees and the Investment Sub-Committee aim to meet at least 3 times a year and the Investment Sub-Committee aims to meet the fund managers at least once each year, as good practice.

6. The balance between different kinds of investments

The Trustees recognise that the key source of financial risk and reward (in relation to meeting their objectives) arises from asset allocation.

They therefore retain responsibility for setting asset allocation, and take expert advice as required from their professional advisers.

The Trustees believe the most appropriate means of determining asset allocation is by asset and liability modelling, which is carried out following each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). Therefore as a minimum the asset allocation is formally reviewed once every three years, with a view that a tactical approach is applied to setting annual asset allocation parameters, as per the table in Section 4.

A broad range of available asset classes has been considered. This includes consideration of active and passive equities, liability-driven investments and alternative asset classes, which includes longer term illiquid credit assets. Hedge funds are excluded from consideration.

7. Choosing investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme and the Trustees' objectives.

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

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

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

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

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

8. Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the fund's assets.

The custodians are independent of the asset managers.

9. Expected returns on assets

"Return-seeking" assets target a higher expected return than that of risk reducing/matching assets and typically have a higher associated volatility, relative to liabilities. These assets would typically involve equities and also include alternative asset classes such as absolute return funds, infrastructure, emerging markets and property funds.

"Risk-reducing" (or matching) assets have characteristics that are broadly similar in nature to the liabilities. These assets are predominantly bonds and could also include other financial instruments such as interest rate and inflation swaps.

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustees in consultation with their advisers and fund managers.

10. Realisation of investments/liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise. The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds) although the Trustees also hold a proportion of assets in less liquid investments (such as illiquid credit investment strategies which have a predefined fund life during which redemptions may not be possible).

11. The arrangements with asset managers

The Trustees monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with their policies. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term 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.

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

The Trustees receive regular reports and verbal updates from their investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives, and assesses the asset managers over 3-year periods.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their fund managers, which supports the Trustees in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustees review the Scheme's exposure to controversial sectors on an annual basis, with a particular focus on: gambling, tobacco, controversial weapons, pornography, thermal coal and other fossil fuel investment, and companies that violate fundamental ethical norms (for example, those in contravention of the UN Global Compact). Where appropriate the Trustees will engage with managers on the rationale for such investments. The Trustees believe that they have a duty to invest in a responsible manner and where appropriate will query managers on the rationale for holding positions in companies which contribute significant negative externalities to society, regardless of whether the action may be financially material.

The Trustees shares their policies, as set out in this SIP, with the Scheme's fund managers, and request that the fund managers review and confirm whether their approach is in alignment with those of the Trustees.

Before appointing a new fund manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies. Where possible, the Trustees will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation – for example if the Scheme invests in a collective vehicle – then the Trustees will express their expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

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

There is typically no set duration for arrangements with fund managers, although the continued appointment of fund managers is reviewed periodically. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

12. Environmental, social and governance considerations

In setting the Scheme's investment strategy, the Trustees' 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. The Trustees believe that in order to fulfil this commitment and to protect and enhance the value of the Scheme's investments, it must act as a responsible steward of the assets in which the Scheme invests.

The Trustees further acknowledge that an understanding of financially material considerations including environmental, social and corporate governance ("ESG") factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

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

The Trustees require that, where relevant, their fund managers:

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

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

13. Activism, and the exercise of the rights attaching to investments

The Trustees recognise the importance of their role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which the Scheme's investments reside. The Trustees recognise that ultimately this protects the financial interests of the Scheme and its beneficiaries.

The Trustees regularly review the continuing suitability of the appointed fund managers and take advice from their investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed fund managers.

To this end, the Trustees expect the Scheme's fund managers to use their influence as major institutional investors to exercise the Scheme's rights and duties as a shareholder including voting, along with — where relevant and appropriate — engagement with underlying investee companies.

The Trustees will engage with their fund managers 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 upon request. Furthermore, the Trustees will ask the Scheme's fund managers to provide details about the ways in which they are undertaking these activities in comparison to their policies and relevant codes of practice. This will be reviewed annually with input from the Trustees' investment adviser.

As active owners, the Trustees will require their fund managers and other service providers to be signatories to the United Nations Principles for Responsible Investment ("UNPRI") — or to explain why they aren't — and to act in accordance with the UK Corporate Governance Code (or their equivalents for overseas investments).

The Trustees further expect the Scheme's appointed fund managers to comply with the United Nations Global Compact and additionally, the Trustees have identified key factors around environmental impact, social impact and corporate governance and will level scrutiny on their fund managers accordingly. The Trustees expect their fund managers to prioritise and actively monitor these risks within their respective investment processes and to provide transparency on engagement and voting actions with respect to the mitigation of these risks as appropriate.

The transparency offered for engagements should include objectives and relevance to the Scheme, the methods of engagement and the processes for escalating unsuccessful engagements. The transparency for voting should include voting actions and 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 either the Trustees or the asset manager.

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

The Trustees expect the Scheme's fund managers to consider collaboration with others, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed.

If an incumbent fund manager is found to be falling short of the standards the Trustees have set out in their policies, the Trustees will engage with the fund manager and seek a more sustainable position, though they may ultimately replace the fund manager if such a position cannot be reached.

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

14. Members' views and non-financial factors

In setting and implementing the Scheme's investment strategy, the Trustees do 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 and Modification) Regulations 2018

15. Costs and transparency

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

The Trustees collect annual cost transparency reports covering all of their investments and ask that the fund managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustees to understand exactly what they're paying their fund managers.

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

Targeted portfolio turnover is defined as the expected frequency with which each underlying fund managers' fund holdings change over a year. Where required, the Trustees engage with their fund managers to understand the methodology used to calculate the transaction costs incurred, especially where transaction costs are material in size relative to other underlying costs. The Scheme's investment consultant monitors this on behalf of the Trustees as part of the manager monitoring they provide to the Trustees and flags to the Trustees where there are concerns.

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

The Trustees review the performance of their fund managers on a quarterly basis and the remuneration of their fund managers on at least an annual basis by collecting cost data in line with the CTI templates. The Trustees undertake detailed analysis and discussions once the latest cost disclosure data has been received with the assistance of their investment consultant. The Trustees seek to limit total costs at 1% p.a. of total Scheme assets and thorough explanations are required from the fund manager where their total costs exceed 1% p.a. of assets under management.

The Trustees assess value for money received from their fund managers on a regular basis by benchmarking their fund managers relative to the wider market. This enables the Trustees to have a detailed understanding of their overall costs, irrespective of net of fees performance, and identify opportunities to challenge their fund managers if a particular manager is an outlier. The Trustees look to address any costs that appear out of line with the market via discussions with their investment consultant and fund managers directly.

The Trustees review how they remunerate their fund managers at the appointment of the mandate and on an annual basis. The Trustees consider whether fund managers should be remunerated on a fixed or performance fee basis on a case-by-case basis, dependent on the fund manager's fee proposal and ongoing performance of the fund.

16. Effective decision making

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

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

17. Additional voluntary contributions ("AVCs") arrangements

Some members obtain further benefits by paying AVCs to the Scheme. From time to time the Trustees will review the choices of investments available to members to ensure they remain appropriate to the members' needs. The value of the members' investments is dependent on the chosen strategy, and managed independently of the other Scheme assets.

STEPHEN FARMER
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Name

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Signature

10/11/2021
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Date

JOHN ASHWORTH
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Name

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Signature

10/9/2021
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Date

For and on behalf of the Trustees of the Durham University Pension Scheme