NATFHE Pension and Life Assurance Scheme

Statement of Investment Principles

Contents

1. Introduction

1.1. This is the Statement of Investment Principles for the NATFHE Pension and Life Assurance Scheme ("the Scheme"), as prepared by the Trustees of the Scheme. This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustees have consulted University and College Union, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustees are set out in Clause 7.2 of the Definitive Trust Deed & Rules, dated 4 July 2005. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional adviser, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long-term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employers, the cost of current and future benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property, alternatives and annuity policies.

4.2. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risk in the portfolio or for the purposes of efficient portfolio management.

4.3. The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the Employer and the size of the pension liability relative to the Employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the Employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations.

Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's investment managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Socially Responsible Investment, Corporate Governance and Voting Rights

Policy on financially material considerations

9.1. The Trustees believe that environmental, social and governance ("ESG") factors are financially material - that is, they have the potential to impact the value of the Scheme's investments over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme. The Trustees take these factors into account, alongside other factors, in their decisions in relation to the selection, retention and realisation of the Scheme's investments. The Trustees appreciate that the method of incorporating ESG in the investment strategy and process will differ between asset classes and the Trustees have considered the time horizon over which the various asset classes will be held.

9.2. The Trustees are comfortable that the funds currently invested in by the Scheme are managed in accordance with their views on financially material factors, as set out below. This position is monitored periodically, at least annually. In the future, the views set out below will be taken into account when appointing and reviewing managers. The Trustee has the opportunity to meet the managers and question them on policies. The Trustees has access to governance and engagement reporting of the managers and receives input from their investment advisors on ESG matters.

9.3. A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below.

9.4. Passive equities The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's passive equities. The Trustees accept that the fund manager must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG. The Trustees therefore require that the fund manager takes into account ESG considerations by engaging with companies and by exercising voting rights. However, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

9.5. Multi-asset funds The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's multi-asset fund managers. The investment process for any multi-asset fund manager used by the Scheme should take ESG issues into account. The Trustees also support engagement activities and, where relevant, the exercise of rights attaching the investments by the Scheme's multi-asset fund managers. However, the incorporation of ESG issues, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

9.6. Credit The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's credit holdings, across both private and public markets. The Trustees recognise that fixed income assets do not include voting rights, however, they support engagement with companies by their managers, particularly in private markets where the manager may be responsible for a larger share of any investment. However, the incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

9.7. LDI and money market The Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in these asset classes because of the nature of the instruments used within the LDI funds and the fact that money market investments are short term.

It is worth noting that when transacting in LDI and money market funds, the Trustees require due diligence is undertaken to assess the credit worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustees believe this is more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

Policy on the exercise of voting rights and engagement activities

9.8. The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

9.9. The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

9.10. Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustees will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

9.11. The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

9.12. The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

9.13. The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

9.14. The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

9.15. Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

9.16. Through their consultation with the Employer when setting this Statement of Investment Principles, the Trustees have made the Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

9.17. The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

9.18. The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

9.19. In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented.

Policy for taking into account non-financial matters

9.20. The Trustees do not consider any non-financial matters when constructing the investment strategy and/or when selecting or reviewing fund managers. The Trustees do not expect their managers to consider any non-financial factors in the selection, retention and realisation of underlying holdings in the pooled funds.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment policies

10.1. Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.

10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

10.3. The Trustees carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

10.4. In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated. The investment managers have been informed of this by the Trustees.

10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback may be provided to the investment manager.

Incentivising assessments based on medium to long term, financial and non-financial considerations

10.6. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees acknowledge this in their investment management arrangements.

10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.8. The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

10.9. The Trustees monitor the performance of their investment managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.

10.10. The Scheme invests exclusively in pooled funds. The investment managers are remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment managers, they receive more and as values fall they receive less.

10.11. The Trustees believe that this fee structure enables the investment managers to focus on long-term performance without worrying about short term underperformance significantly affecting their revenue.

10.12. The Trustees ask the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

10.13. The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.14. During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.15. For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.16. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

Agreement

This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the investment managers, the actuary and the Scheme auditor upon request.

Signed **Lynette Lewis** (**Chair of Trustees)** Date 22 November 2023

On behalf of the Trustees of the NATFHE Pension and Life Assurance Scheme

Appendix 1 Note on investment policy of the Scheme as at September 2023 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Rebalancing

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

Asset class	Allocation (%)
Equities	**12.5**
UK equities	6.25
Overseas equities	6.25
Diversified Growth Fund	**22.5**
Corporate bonds	**32**
LDI and cash	**33**
Total	**100**

2. Choosing investments

The Trustees have appointed the following investment managers to carry out the day-to-day investment of the Scheme:

- Legal & General Investment Management Limited (LGIM);
- Columbia Threadneedle Investments

The Trustees also have an AVC contract with Friends Life for the receipt of members' Additional Voluntary Contributions (AVCs).

The investment managers and AVC provider are authorised and regulated by the Financial Conduct Authority.

The investment benchmarks and objectives for each investment manager are given below:

Investment manager	Fund	Benchmark	Objective
LGIM	UK Equity Index	FTSE All-Share Index	To track the total return of the benchmark to within +/- 0.25% p.a. for two years out of three
	World (ex-UK) Equity Index Fund – GBP Hedged	FTSE All- World (ex-UK) Index GBP hedged (excluding advanced emerging markets)	To track the total return of the benchmark to within +/- 0.50% p.a. for two years out of three
	Active Global Corporate Bond Fund GBP Hedged	Barclays Capital USD/EUR/GBP Corporate 1% issuer capped index – GBP Hedged	To exceed the benchmark by 1.25% p.a. over a 3 year rolling period, gross of fees
	Matching Plus Funds	Gilt and swap composite index	Provide leveraged exposure to changes in nominal and real interest rates
	Sterling Liquidity Fund	7 Day LIBID	To provide an income whilst offering daily access to liquidity and maintaining the value of the investment.
Columbia Threadneedle	Dynamic Real Return Fund	Consumer Price Index	Outperform the benchmark by 4% p.a. gross of fees over rolling 3-5 year periods

The performance of the investment managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

Liability Driven Investment ("LDI")

The Trustees have structured the LDI portfolio according to their objective to hedge around 100% of the interest rate and inflation risk to which the funded liabilities are exposed. The Trustees will review the level of hedging achieved by the LDI portfolio as part of any future strategy discussions. The Trustees will aim to keep the hedge ratios broadly equal as a proportion of the Scheme's liabilities.

3. Investments and disinvestments

Investments and disinvestments will normally be made so as to move the actual asset allocation more in line with the target asset allocation (excluding LDI assets).

Collateral management on the LGIM LDI funds

In order to manage the amount of leverage within the funds, LGIM will inform the Trustees of the amount of any required cash collateral call or payout.

In the event of a cash collateral call (requiring the Trustees to top-up the Scheme's investment in the LDI funds) LGIM will automatically disinvest from the Sterling Liquidity fund, or from the UK and Overseas equity funds (towards the target regional allocation) if the holding in the cash fund is insufficient, unless instructed otherwise by the Trustees.

In the event that cash collateral payouts are made from the LDI funds, LGIM will automatically pay these amounts directly into the Sterling Liquidity Fund. The Trustees will then decide on a case by case basis whether to invest these amounts or to retain them for benefit payment purposes.