The University of Warwick Pension Scheme

Annual report for the year ended 31 March 2020

Scheme Registration Number 10000605

Table of contents

The Trustee's Report

Introduction

This report relates to the operation of The University of Warwick Pension Scheme ("the Scheme") during the year ended 31 March 2020. The Investment Report on pages 13 to 17 forms part of this report.

Until 31 March 2010 the Scheme was a contracted-out salary related pension arrangement but from 1 April 2010 the Scheme contracted back in to the State Second Pension. The Defined Benefit (DB) Section closed to new entrants from 31 March 2010 although eligible non-Members who were in service on 31 March 2010 were allowed to join the Scheme up to 30 June 2010.

From 1 April 2010 the Scheme introduced a contracted in Defined Contribution (DC) Section for new employees to the University, which provides its Members with benefits based on their fund value.

From 1 March 2013 this original DC Section of the Scheme was renamed the Heritage Defined Contribution Section and the contribution levels amended to ensure that it complies as a Qualifying Scheme for automatic enrolment purposes under the Pensions Act 2008 legislation. A new DC Section, the Enterprise Defined Contribution Section, was established from 1 March 2013 in readiness for auto enrolment of Uni-temps workers effective from 1 May 2017.

Members are able to make additional voluntary contributions (AVCs) to secure additional benefits. The Scheme also covers members (except those in the Enterprise Section) for death benefits.

Full details of the Scheme's benefits can be found in the member's explanatory booklet (see "Contact for further information" on page 8). A copy of the Heritage Defined Contribution section booklet can be accessed via the University's HR Intranet page or by e-mailing hr.pensions@warwick.ac.uk.

Management of the Scheme

The Scheme has a Corporate Trustee, UPS Pension Trustee Limited. The names of the directors who served during the year and those serving at the date of approval of this report are as follows:

Name	Nominated / appointed by	Date of appointment
Professor Emeritus Stuart Beaumont Palmer	Employer	24/05/2010
Professor Saul Domenico Jacka	Employer	07/05/2015
Mr James McMeehan Roberts	Employer	23/10/2014
Mr Quentin Compton-Bishop	Members	19/10/2016
Mr James Hunt	Employer	26/06/2017
Ms Jennifer Elizabeth Davies	Members	13/03/2019

Directors are appointed and removed from office in accordance with the Scheme Rules and the Trustee Company's Articles of Association. At least one third of the Trustee Directors appointed by the Principal Employer must be nominated by the Members.

The Trustee held a number of full meetings during the year under review. Each Trustee Director is entitled to receive at least ten days' notice of meetings, although in practice dates are normally fixed well in advance. The Scheme Rules provide that decisions of the Trustee may be made by a majority of the Trustee Directors present at any meeting and the Chairman has a casting vote. The Trustee uses sub-committees as appropriate, for example the investment sub-committee to consider more detailed technical work. The sub-committees in each case report their recommendations to the Trustee.

The Trustee has delegated the day-to-day management and operation of the Scheme's affairs to professional organisations

The Trustee's Report (Cont)

Scheme advisers

The Trustee retains a number of professional advisers in connection with the operation of the Scheme. The advisers currently appointed are as follows:

Scheme Actuary	Lloyd Cleaver FIA
Advising Actuaries	Willis Towers Watson
Administrators	Barnett Waddingham LLP (DB Section) Zurich Assurance Limited (DC Section)
Auditor	KPMG LLP
Bankers	National Westminster Bank plc
Custodian	State Street Bank and Trust Company
Investment Advisors	Willis Towers Watson
Investment Fund Managers	AQR Capital Management LLC (to December 2019) BlackRock Advisers (UK) Capstone Asset Management (from February 2020) First State Investments UK Ltd (from January 2020) Fulcrum Asset Management (to December 2019) Insight Investment Legal and General Investment Management Magnetar Capital LLC (to December 2019) JPMorgan Asset Management (UK) Limited Nephilia Capital Putnam Investments (to December 2019) Sankaty Advisers LLC (to May 2019) State Street Global Advisors TCW Securitized Opportunities (Cayman) L.P. Towers Watson Investment Management Ltd (from November 2019) Wadhwani Asset Management (to October 2019) Wellington Management Zurich Assurance Limited (DC Sections) Prudential (AVCs)
Legal Advisers	Sackers
Secretary to the Trustee	Joseph Devlin
Pension Manager	Joseph Devlin

Changes in and other matters relating to Scheme advisers

There have been no other matters relating to Scheme advisers during the Scheme year under review.

The Trustee's Report (Cont)

Changes to Scheme Rules

There have been no changes to the Scheme Rules during the year under review.

The Principal Employer

The name and address of the Principal Employer is as follows:

The University of Warwick, Coventry, CV4 7AL

The following Employers, all of which are associated in business with the Principal Employer, have also participated in the Scheme during the year under review:

Employer Name
The University of Warwick Science Park Limited
Warwick University Enterprises Limited (Enterprise DC Section only)

Financial development of the Scheme

During the year the value of the net assets increased by £17,825,193 to £252,749,442 as at 31 March 2020. The increase comprised net withdrawals from dealings with members of £168,686 together with a net increase from the return on investments of £17,825,193.

Scheme Audit

The financial statements on pages 22 to 38 have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

Tax status of Scheme

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and, to the Trustee's knowledge, there is no reason why the Scheme's registered status should be prejudiced or withdrawn.

The Trustee's Report (Cont)

Scheme membership

Defined Benefit Section	Number as at start of year	Changes in year	Number as at end of year
Active members	485		
adjustments		29	
left (preserved pensioners)		(25)	
died		(4)	
retired		(46)	
			439
Preserved pensioners	912		
adjustments		(10)	
new		25	
transferred out		(2)	
retired		(33)	
commuted pension		(4)	
			888
Pensioners and dependants	1,015		
adjustments		4	
new		79	
new dependants		11	
commuted pension		(22)	
died		(32)	
			1055
Grand total members	2,412		2,382

Included within the pensioners and dependants are 129 (2019: 129) pensions paid from annuities held in the name of the Trustee.

Adjustments relate to late notifications and a data cleanse on the active and preserved membership.

Defined Contribution Section	Number as at start of year	Number as at end of year
Active members	1,966	2,247
Preserved pensioners	1,006	1,484
Grand total members	2,972	3,731

The member numbers shown above reflect the number of member records held by the Scheme.

The Trustee's Report (Cont)

Pension increases

Pensions in payment were increased during the period as follows:

- That part of the pension appropriate to service before 6 April 1997 was increased by 3%.
- That part of the pension appropriate to service between 6 April 1997 and 5 April 1999 was increased by the percentage increase in the Retail Prices Index subject to a maximum of 5% and a minimum of 3%, therefore 3%.
- That part of the pension appropriate to service between 6 April 1999 and 5 April 2006 was increased by the percentage increase in the Retail Prices Index subject to a maximum of 5%, therefore 2.5%.
- That part of the pension appropriate to service between 6 April 2006 and 31 March 2010 was increased by the percentage increase in the Retail Prices Index subject to a maximum of 3%, therefore 2.5%.
- That part of the pension appropriate to service after 31 March 2010 was increased by the percentage increase in the Retail Prices Index subject to a maximum of 2.5%, therefore 2.5%.

These increases are in accordance with the Scheme Rules. No discretionary increases were awarded.

COVID-19

Subsequent to the Scheme's year-end, there has been significant volatility in markets as a result of the Coronavirus (COVID-19) pandemic. The Trustee considers the outbreak to be a non-adjusting post net asset statement event and as the situation is fluid and unpredictable, an estimate of the precise financial effect is not possible at the date of issue of the financial statements. The Trustee is monitoring the situation closely and liaising regularly with its investment adviser to consider any necessary actions to respond to the emerging issues.

The Trustee believes the Scheme's investment strategy is already significantly de-risked and does not expect there to have been a material change to the Scheme's funding position as a result of COVID-19. The funding level of the Scheme is kept under review by the Scheme's investment advisers and Scheme Actuary.

GMP equalisation

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes.

The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps. As noted on page 11, the total impact on the Scheme's actuarial liabilities has been estimated at 0.25% of the total liabilities of the Scheme (excluding the expenses reserve).

Transfer values

All cash equivalents (transfer values) paid during the year were calculated and verified in the manner required by the Pensions Act 1993 and subsequent amendments. No discretionary benefits are included in the calculation of transfer values.

A cash equivalent is the amount which a Scheme member is entitled under social security legislation to have applied as a transfer payment to another permitted pension arrangement or a buy-out policy.

The Trustee's Report (Cont)

Data Protection Act 2018 and General Data Protection Regulations

On 25 May 2018 the Data Protection Act 1998 was replaced by the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. The GDPR and the 2018 Act introduced some significant changes, including new contractual obligations, enhanced reporting obligations and tougher enforcement and / or sanctions for non-compliance.

Under the new regulations, pension scheme trustees continue to be classed as data controllers, with legal responsibility for compliance falling to them. Scheme Actuaries are also classed as data controllers (jointly with the trustees) in accordance with guidance issued by the Actuarial Profession. Barnett Waddingham LLP act as a data processer as the administrators of the Scheme. The Trustee has worked with its advisers to receive relevant training, and continues to do so to ensure continued compliance with data protection legislation.

Codes of Practice

The Trustee is aware of and adheres to the Codes of Practice issued by The Pensions Regulator ("TPR"). The objectives of these codes are to protect members' benefits, reduce the risk of calls on the Pension Protection Fund ("PPF") and to promote good administration.

The Pensions Regulator: Record Keeping

TPR issues guidance on all aspects of pension scheme data record keeping to all those responsible for the data (the trustees) and those who administer pension schemes. The guidance covers both common data and also scheme-specific data (conditional). The guidance sets out good practice in helping trustees to assess risks associated with record keeping. Improved data means that trustees and employers will be able to make a more precise assessment of their financial liabilities. Schemes are expected to keep their data under regular review and set targets for the improvement in the standard of data recorded. More information can be found at:

http://www.thepensionsregulator.gov.uk/guidance/guidance-record-keeping.aspx

Contact for further information

If, as a defined benefit Scheme member, you wish to obtain further information about the Scheme, including copies of the Scheme documentation, your own pension position or who to contact in the event of a problem or complaint, please write to or telephone:

The University of Warwick Team, Barnett Waddingham LLP, St James's House. St James's Square, Cheltenham, GL50 3PR.

Telephone: 0333 1111 222

Alternatively you may contact the Scheme administrators online at:
https://logon.bwebstream.com/shared/contact

If you are a member of the defined contribution section (either Heritage or Enterprise sections) and have a query you should contact the Human Resources (HR) Pensions Administration Team at:

Pensions Administration
HR Department
University House
University of Warwick
Coventry
CV4 8UW

Alternatively you may contact the team online at: hr.pensions@warwick.ac.uk

The Trustee's Report (Cont)

Statement of Trustee's Responsibilities

Statement of Trustee's responsibilities for the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, is the responsibility of the Trustee. Pension scheme regulations requires the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

(i) show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and

(ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes*.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as it determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee's Report (Cont)

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to covers its technical provisions. The technical provisions represent the present value of the benefit members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the University and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Defined Benefit section of the Scheme was carried out as at 31 March 2019. The table below shows the results of this valuation.

Valuation date	31 March 2019 £m
Value of technical provisions (£m)	240.3
Value of assets available to meet technical provisions (£m)	221.7
Assets as a percentage of technical provisions	92%

The values above relate to the whole Scheme, including the assets and liabilities in relation to AVC benefits. The Trustee holds annuity policies that secure the pensions payable to certain specified beneficiaries. However, as permitted under current regulations and accounting practice, the Trustee has decided that these policies need not be valued in the Net Asset Statement on the grounds of materiality. The figures above include a prudent assessment of these annuity policies, but it is worth noting that the assets and liabilities covered by these policies match each other exactly.

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

The principal assumptions that were used for the actuarial valuation as at 31 March 2019 are set out below. The assumptions as at 31 March 2019 were derived having regard to the agreed Statement of Funding Principles dated 5 June 2020 and market conditions at 31 March 2019.

All assumptions have been derived with reference to the full gilt yield curve and implied inflation curve, from the Willis Towers Watson Investment Model. Detailed in the table below are the single equivalent financial assumptions. These represent the equivalent single assumptions which taken in isolation would produce the same liability figure as that derived from using the full curves for each respective financial assumption.

The Trustee's Report (Cont)

Report on Actuarial Liabilities (Cont)

Assumed future rate of:	31 March 2019 % pa
Discount rates:	
- Short term discount rate	2.50
- Long term discount rate	1.70
- Initial time horizon	10 years
Salary increases:	2.55
Deferred increases on pension in excess of GMP * :	
- Pre 6.4.09	2.55
- Post 5.4.09	2.50
Pension increases in payment:	
- Pre 6.4.97 (inc. GMP) (fixed 3%)	3.00
- Post 5.4.97, pre 6.4.99 (RPI, min 3%, max 5%)	3.85
- Post 5.4.99, pre 6.4.06 (RPI, max 5%)	3.15
- Post 5.4.06, pre 1.4.10 (RPI, max 3%)	2.30
- Post 31.3.10 (RPI, max 2.5%)	2.00
Mortality in retirement	
- Base mortality tables	
Male Pensioners	SAPS (S3) normal tables with a multiplier of 114%
Female Pensioners	SAPS (S3) normal tables with a multiplier of 102%
- Future improvements in longevity	CMI 2018 core projections (including core values for the extended parameters) with a 1.5% pa long-term trend
GMP equalisation**	0.25% of total defined benefit liability (excluding expenses allowance)

* GMP receives statutory fixed rate revaluation in deferment

** An allowance equal to 0.25% of the total liabilities of the Scheme (excluding the expenses reserve) has been made as a reserve for the impact of any need to equalise benefits accrued between 17 May 1990 and 5 April 1997 to allow for the unequal impact of Guaranteed Minimum Pensions on men and women. It is expected that detailed calculations will be undertaken in due course and the benefits and liabilities of the Scheme will be adjusted accordingly

Towers Watson Limited, a Willis Towers Watson Company

23 June 2020

The Trustee's Report (Cont)

Approval of Trustee's Report (including Investment Report)

Further disclosures required by legislation are provided in the Investment Report.

This report and the accompanying Investment Report were approved by the Trustee on

Date: 25 September 2020

Signed on behalf of the Trustee:

[redacted] [redacted]

The Investment Report

DB Section

Introduction

The Trustee maintains a Statement of Investment Principles ("SIP"), as required by Section 35 of the Pensions Act 1995, and a copy of the statement is available on request. This outlines the Scheme's investment governance structure and asset allocation strategy.

Departures from investment principles

There were no significant departures from the stated principles during the year under review. Small deviations from the benchmark allocation are to be expected as a result of fluctuations in asset prices.

Governance structure

The Trustee has ultimate responsibility for decision-making on investment matters.

In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities in accordance with the Scheme's Trust Deed and Rules.

In particular, the Trustee delegates a number of tasks to an Investment Sub Committee ("ISC") as well as a Delegated Chief Investment Officer ("DCIO"), the latter function being carried out by Towers Watson Limited.

The Trustee's primary investment role and responsibility is to set the overall strategic investment objectives for the Scheme, including a risk budget and return target (taking advice from the ISC and DCIO), and ensuring that these objectives remain appropriate over time.

The DCIO's roles and responsibilities are set out within a Fiduciary Management Agreement ("FMA"). The DCIO is responsible for managing the Scheme's investments within the constraints of specific Investment Guidelines, which are designed to be consistent with the long-term strategic goals and parameters agreed by the Trustee. Specific responsibilities include: determining asset allocation and liability hedging design; selecting and de-selecting underlying investment managers; implementing all asset transitions; and providing regular monitoring reports.

The ISC's roles and responsibilities include monitoring the activity and performance of the DCIO for the services provided as set out in the DCIO's FMA, and reporting to the Trustee.

Further details regarding the division of responsibilities are set out in the Scheme's SIP.

Responsible investing, stewardship and sustainability

The Trustee believes long-term sustainability to be an important and relevant issue to consider throughout the investment process. In particular the Trustee recognises that:

- an investment's financial success can be influenced by a wide range of factors including environmental, social and governance (ESG) issues and stewardship
- ESG considerations and stewardship are therefore important aspects of responsible financial risk management in order to protect the value of investments and should improve long-term member financial outcomes.

Where ESG factors, stewardship and broader sustainable investment considerations are deemed to be financially material, the Trustee believes that they should be taken into account within the investment decision-making process. The Trustee may consider non-financial matters as part of its overall decision making and setting of investment strategy including as and when views are proactively raised by members, and will continue to monitor and review its approach in this area.

The Investment Report (Cont)

The Trustee applies the principles outlined above via the selection and monitoring of the DCIO (and its associated approach to ESG and broader sustainability issues). In particular, the Trustee has delegated:

- investment manager selection, de-selection and monitoring to the DCIO
- the selection, retention and realisation of investments to the DCIO and in turn to the Scheme's investment managers (in accordance with the Financial Services and Markets Act 2000, the selection of specific investments is delegated to investment managers)
- responsibility for the exercising of rights (including voting rights) attaching to investments to the Scheme's investment managers.

Further information on this can be found in the Scheme's SIP.

Asset allocation strategy

The asset allocation at the beginning and end of this accounting year was as follows:

Asset Class	Asset allocation (%) 31.03.19	Asset allocation (%) 31.03.20
Equities		
Global equities (Inc. Emerging)	9.8%	10.0%
Alternative betas		
Diversifying strategies	17.9%	18.0%
Alternative credit		
Global high yield	1.3%	1.0%
Loans	2.6%	-
Securitised credit	4.5%	3.4%
Emerging Market Debt	3.0%	2.6%
Real assets		
REITs	4.8%	3.0%
Infrastructure	4.7%	3.4%
Secure Income Assets	7.2%	6.9%
Credit		
Global sovereign credit**	3.7%	-
Downside risk hedging		
Downside risk hedging	-	0.7%
Matching assets		
Matching assets (including cash)	40.5%	51.0%
Total	**100%**	**100%**
Liability hedge ratio*	***c.94%***	***c.94%***

*The liability hedge ratio is an estimate of 'the sensitivity of the assets to changes in long-term interest rate and inflation expectations' relative to 'the sensitivity required to insulate the funding level against changes in long-term interest rates and inflation'.

** The Scheme was in the process of transitioning the global sovereign credit allocation to a new manager during 31/03/20 and therefore this allocation is reflected in the matching assets line item

The change in asset allocation over the year reflects both relative market movements as well as some portfolio rebalancing.

The change in asset allocation over the year reflects a combination of relative market movements as well as some portfolio rebalancing.

The asset allocation only reflect the assets managed by the DCIO and excludes any annuity policies, AVCs or cash held in the Trustee account.

The Investment Report (Cont)

Review of investment performance

Summary

As COVID 19 morphed into a global pandemic towards the end of the period in question, central banks eased aggressively to provide liquidity and mitigate the demand shock. The US government announced a $2 trillion loans and transfer package to households and businesses (c10% of US GDP). Also, the Federal Reserve (the Fed) announced a set of liquidity and loan measures that could double the size of its balance sheet from $4 trillion to $8 trillion (c40% of US GDP). These were short-term responses but will likely have important long-term implications for businesses and investors.

The Bank of England reduced base rates from 0.75% to 0.25% on 11 March 2020, and then announced a further reduction to 0.10% on 19 March, in a bid to shore up the UK economy. In the US, The Fed cut the target range for its benchmark policy rate in July 2019 by 0.25% to 2.00-2.25% and then there was a further rate cut to 1.75-2.00% in September 2019. The Fed again reduced rates to 1.00-1.25% on 3 March 2020, and then made a further reduction to 0.00-0.25% on 15 March, commenting that the action was intended to help support economic activity, strong labour market conditions, and inflation returning to the Committee's symmetric 2% objective.

Brexit uncertainty continued over the period. On 12 March 2019, the UK Parliament rejected the Brexit deal negotiated by Prime Minister May for the second time. Parliament then went on to reject leaving the European Union without any deal. The UK and the EU agreed to a short-term Brexit extension, until 22 May, when May's deal was again rejected. Theresa May stepped down after these three unsuccessful attempts to get her Brexit deal ratified in the Parliament, with Boris Johnson announced as her successor. On 13 December, the Conservative Party secured a parliamentary majority in the UK general election with a strong mandate to get Brexit done.

Negotiations between the US and China continued over the period. In December 2019, China agreed to: i) Buy $40bn worth of US agricultural products; ii) Protect US intellectual property rights; iii) Place restrictions on forced transfer of technology from US firms; iv) Improve access of US firms to Chinese financial services; and v) avoid RMB currency manipulation. In return, the US pledged to not place levies on $160bn worth of additional Chinese goods and cut tariffs on $120bn worth of goods from 15% to 7.5%, but maintain a 25% tariff on $250bn worth of Chinese goods.

The US also announced tariffs on $7.5bn worth of Eurozone imports from mid-October. This followed a WTO ruling finding that subsidies given by the EU to Airbus (a European company) were illegal and unfair in its competition to Boeing (a US company).

Equity markets

Equity market returns were negative over the 12 month period, with the FTSE World Index returning -6.0% in sterling terms. Chinese equities were the best performing region, returning -1.0% in sterling terms. Emerging market equities lagged developed, with the FTSE Emerging Index returning -13.0% in sterling terms.

Alternative investment markets

Crude oil returned -64.2% (West Texas Intermediate Crude Oil) in sterling terms over the 12 months to 31 March 2020.

At the start of 2020, oil prices declined following the reduction in demand from China as the COVID outbreak forced the economy to freeze. An oil price shock then occurred in March 2020, with the OPEC oil states and Russia failing to reach an agreement to cut oil production to help balance supply and demand – the economic impacts of COVID slowed current and expected oil demand. The situation escalated with Saudi Arabia – the largest OPEC producer – cutting its oil selling price and increasing its production which caused a further oil price crash.

Commercial UK property (as measured by the IPD Monthly Index) returned 0.3% over the 12 month period.

The Investment Report (Cont)

Performance

Total Scheme investment returns for the Scheme year are summarised below:

Period to 31 March 2020	Return (%)
Quarter	+2.0
Year	+8.9
3 years (annualised)	+5.7

The following table provides a breakdown of returns since 1 January 2013, when the current investment structure was put in place:

Asset class / Portfolio	Since inception return (% pa)
Global equities:	
Global equities (including Emerging)	5.4
Alternative betas:	
Diversifying Strategies	1.4
Alternative credit:	
Global high yield[1]	6.3
Securitised credit[2]	0.1
Emerging Market Debt[3]	-4.2
Private markets:	
Infrastructure	10.6
REITs[4]	-1.9
Secure Income Assets[5]	3.6
Credit:	
Global sovereign credit[6]	4.5
Downside risk hedging	
Downside risk hedging[7]	*145.0*
Matching assets:	
Matching assets (including cash)	21.1
Total Scheme	**9.8**

1 Global High Yield inception date – 01/12/2015

2 Securitised Credit inception date – 01/06/2016

3 Emerging Market Debt inception date – 30/11/2017

4 REITs inception date – 10/11/2016

5 Secure Income Assets inception date – 01/12/2018 –performance as reported by the Scheme's performance measurer (State Street) is lagged as at 31 December 2019.

6 Global sovereign credit inception date – 01/04/2016

7 Downside Risk Hedging inception date – 01/05/2019

The Investment Report (Cont)

DC Section

Performance

DC Section investment returns for the last 12 months are summarised below:

Fund	Return (%)	Benchmark (%)	Relative (%)
UPS Balanced Growth	(4.20)	(4.50)	0.30
UPS Equity Growth	(6.20)	(6.60)	0.40
UPS Money Market	0.70	0.50	0.20
UPS Pre-Retirement	8.80	8.80	0.00
SW Money Market CS1	0.56	0.54	0.02
SW Passive Multi-Asset II CS1/CS3	0.67	0.30	0.37
SW Passive Multi-Asset III CS1	(4.06)	(4.46)	0.40
SW Passive Multi-Asset IV CS1	(7.74)	(7.68)	(0.06)
SW Passive Multi-Asset V CS1	(8.82)	(8.67)	(0.15)
SW Passive Annuity Purchase CS1	10.03	10.38	(0.35)

Statement of Trustee's Responsibilities in respect of Contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Schedule.

Summary of Contributions payable in the year

During the year, the contributions payable to the Scheme under the Schedule of Contributions were as follows:

	£
Defined Benefit Section	
Employer normal contributions	1,911,899
Employer deficit contributions	1,379,107
Members' normal contributions	514,998
Defined Contribution Section	
Employer normal contributions	2,245,984
Members' normal contributions	1,213,641
Employer additional reserve fund	23,356
Total contributions payable under the Schedule of Contributions and reported on by the Scheme auditor	7,288,985

During the year, the contributions not payable per the Schedule of Contributions were as follows:

Defined Benefit Section	
Members' Additional Voluntary Contributions	64,400
Defined Contribution Section	
Members' Additional Voluntary Contributions	20,712
Total contributions reported in the financial statements	7,374,097

Signed on behalf of the Trustee:

[redacted]
Director

[redacted]
Director

Date: 25 September 2020

Independent Auditor's Statement about Contributions to the Trustee of The University of Warwick Pension Scheme

We have examined the summary of contributions payable under the Schedule of Contributions to the University of Warwick Pension Scheme in respect of the Scheme year ended 31 March 2020 which is set out on page 18.

In our opinion contributions for the Scheme year ended 31 March 2020 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 1 February 2018.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of the Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 18, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, as a body, for our work, for this statement, or for the opinions we have formed.

[redacted]

Iryndeep Kaur-Delay
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

Date: 25 September 2020

Independent Auditor's Report to the Trustee of The University of Warwick Pension Scheme

Opinion

We have audited the financial statements of The University of Warwick Pension Scheme ("the Scheme") for the year ended 31 March 2020 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under the UK ethical requirements including the FRC Ethical Standard, and are independent of the Scheme in accordance with UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the financial statements on the going concern basis as they do not intend to wind up the Scheme, and as they have concluded that the Scheme's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the scheme, and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the Report on Actuarial Liabilities and the summary of contributions), and the actuarial certification of the Schedule of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Independent Auditor's Report (Cont)

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 9, the Scheme's Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at:
www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

[redacted]

Iryndeep Kaur-Delay
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill, Snowhill Queensway
Birmingham, B4 6GH

Date: 25 September 2020

The Financial Statements

Fund Account

for the year ended 31 March 2020

	Note	31 March 2020 Defined Benefit Section £	Defined Contribution Section £	Total £	31 March 2019 Total £
Contributions and benefits					
Employer contributions		3,291,006	2,269,340	5,560,346	5,004,662
Employee contributions		579,398	1,234,353	1,813,751	1,538,816
Total contributions	5	3,870,404	3,503,693	7,374,097	6,543,478
Transfers in	6	-	55,457	55,457	61,173
Other income	7	33,970	79,176	113,146	129,951
		3,904,374	3,638,326	7,542,700	6,734,602
Benefits paid or payable	8	(6,225,604)	(267,835)	(6,493,439)	(5,606,215)
Payments to and on account of leavers	9	(127,069)	(187,051)	(314,120)	(529,315)
Administrative expenses	10	(665,558)	(107,283)	(772,841)	(661,873)
Other payments	11	(40,262)	(90,724)	(130,986)	(131,404)
		(7,058,493)	(652,893)	(7,711,386)	(6,928,807)
Net (withdrawals) / additions from dealings with members		(3,154,119)	2,985,433	(168,686)	(194,205)
Returns on investments					
Investment income	12	19,446,285	478	19,446,763	10,702,886
Change in market value of investments	13	241,386	(1,145,150)	(903,764)	4,435,944
Investment management expenses	14	(490,789)	(58,331)	(549,120)	(543,947)
Net returns on investments		19,196,882	(1,203,003)	17,993,879	14,594,883
Net increase in the fund during the year		16,042,763	1,782,430	17,825,193	14,400,678
Net assets of the Scheme					
At 1 April 2019		220,693,136	14,231,113	234,924,249	220,523,571
At 31 March 2020		236,735,899	16,013,543	252,749,442	234,924,249

The notes on pages 24 to 38 form part of these financial statements.

Statement of Net Assets

available for benefits as at 31 March 2020

	Note	31 March 2020			31 March 2019
		Defined Benefit Section	Defined Contribution Section	Total	Total
		£	£	£	£
Investment assets:					
Pooled investment vehicles	16	224,894,428	15,698,015	240,592,443	232,885,541
Cash in transit	13	9,828,938	-	9,828,938	-
AVC investments	17	976,786	-	976,786	946,505
Total investments		235,700,152	15,698,015	251,398,167	233,832,046
Current assets	21	1,306,148	339,511	1,645,659	1,634,474
Current liabilities	22	(270,401)	(23,983)	(294,384)	(542,271)
Net assets of the Scheme at 31 March available for benefits		236,735,899	16,013,543	252,749,442	234,924,249

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the Defined Benefit Section is dealt with in the Report on Actuarial Liabilities on pages 10 to 11 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 24 to 38 form part of these financial statements.

These financial statements were approved by the Trustee on

Date: 25 September 2020.

Signed on behalf of the Trustee:

[redacted]

[redacted]

Notes to the Financial Statements

Details of general information for the Scheme are available in the Trustee's Report.

1. Basis of preparation

The individual financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice (Revised 2018).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as they believe that the Scheme has adequate resources to realise its assets and meet benefit obligations in the normal course of affairs (continue to operate) for at least the next twelve months. Contributions have continued to be paid into the Scheme post year end. In reaching this conclusion, the Trustee has considered severe but plausible downsides which consider the impact of the COVID-19 outbreak and have taken into account the impact on investments, future income and capital growth, portfolio liquidity, cashflow requirements and the employer covenant. This assessment, gives the Trustee confidence to prepare the financial statements on a going concern basis.

2. Identification of the financial statements

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustee's Report.

3. Accounting policies

The principal accounting policies of the Scheme which are applied consistently are as follows:

Currency

- The Scheme's functional and presentational currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year-end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

Contributions

- Employer deficit funding contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier with the agreement of the Employer and Trustees.
- Employee contributions, including AVCs, are accounted for by the Trustee when they are deducted from pay by the Employer.
- Employer normal contributions are accounted for in accordance with the Schedule of Contributions in force during the year.
- Employer additional contributions are accounted for in accordance with the agreement under which they are payable or, in the absence of an agreement, on a receipts basis.

Payments to members

- Pensions in payment are accounted for in the period to which they relate.
- Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving.
- Individual transfers in or out of the Scheme are accounted for when member liability is accepted or discharged which is normally when the transfer amount is paid or received.

Expenses

- Expenses are accounted for on an accruals basis.
- Investment management expenses are also accounted for on an accruals basis.

Investment income

- Income from pooled investment vehicles is accounted for when declared by the fund manager.
- Income from cash and short term deposits is accounted for on an accruals basis.
- Receipts from annuity policies are accounted for as investment income on an accruals basis.
- Investment income arising from the underlying investments of the pooled investment vehicles is reinvested within the pooled investment vehicles and reflected in the unit price. Thus, it is reported within "Change in market value".

Notes to the Financial Statements (Cont)

3. Accounting policies (Cont)

Investments are included at fair value as stated below:

- The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.
- Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV) determined in accordance with fair value principles, provided by the pooled investment manager.
- Annuities purchased by the Trustee which fully provide the benefits for certain members are not included as assets of the Scheme as they are deemed not material. The cost of purchasing these annuities is reported under benefits payable within the Fund Account.
- With profit insurance policies are reported at the policy value provided by the insurance company based on the cumulative reversionary bonuses declared and the current terminal bonus.

4. Comparative disclosures for the Fund Account and Statement of Net Assets

Fund account

	Note	31 March 2019		
		Defined Benefit Section £	Defined Contribution Section £	Total £
Contributions and benefits				
Employer contributions		3,290,000	1,714,662	5,004,662
Employee contributions		613,444	925,372	1,538,816
Total contributions	5	3,903,444	2,640,034	6,543,478
Transfers in	6	-	61,173	61,173
Other income	7	25,052	104,899	129,951
		3,928,496	2,806,106	6,734,602
Benefits paid or payable	8	(5,458,048)	(148,167)	(5,606,215)
Payments to and on account of leavers	9	(330,257)	(199,058)	(529,315)
Administrative expenses	10	(608,699)	(53,174)	(661,873)
Other payments	11	(39,165)	(92,239)	(131,404)
		(6,436,169)	(492,638)	(6,928,807)
Net (withdrawals) / additions from dealings with members		(2,507,673)	2,313,468	(194,205)
Returns on investments				
Investment income	12	10,702,822	64	10,702,886
Change in market value of investments	13	3,568,837	867,107	4,435,944
Investment management expenses	14	(501,605)	(42,342)	(543,947)
Net returns on investments		13,770,054	824,829	14,594,883
Net increase in the fund during the year		11,262,381	3,138,297	14,400,678
Net assets of the Scheme				
At 1 April 2018		209,430,755	11,092,816	220,523,571
At 31 March 2019		220,693,136	14,231,113	234,924,249

Notes to the Financial Statements (Cont)

4. Comparative disclosures for the Fund Account and Statement of Net Assets (cont)

Net Assets Statement available for benefits at 31 March 2019

	Note	31 March 2019 Defined Benefit Section £	Defined Contribution Section £	Total £
Investment assets:				
Pooled investment vehicles	16	218,785,021	14,100,520	232,885,541
AVC investments	17	946,505	-	946,505
Total net investments		219,731,526	14,100,520	233,832,046
Current assets	21	1,334,490	299,984	1,634,474
Current liabilities	22	(372,880)	(169,391)	(542,271)
Net assets of the Scheme at 31 March 2019 available for benefits		220,693,136	14,231,113	234,924,249

5. Contributions

	2020 Defined Benefit Section £	Defined Contribution Section £	Total £
Employer contributions			
Normal	1,911,899	2,245,984	4,157,883
Deficit	1,379,107	-	1,379,107
Additional	-	23,356	23,356
	3,291,006	2,269,340	5,560,346
Employee contributions			
Normal	514,998	1,213,641	1,728,639
Additional voluntary contributions	64,400	20,712	85,112
	579,398	1,234,353	1,813,751
	3,870,404	3,503,693	7,374,097

	2019 Defined Benefit Section £	Defined Contribution Section £	Total £
Employer contributions			
Normal	2,032,686	1,691,958	3,724,644
Deficit	1,257,314	-	1,257,314
Additional	-	22,704	22,704
	3,290,000	1,714,662	5,004,662
Employee contributions			
Normal	548,029	897,681	1,445,710
Additional voluntary contributions	65,415	27,691	93,106
	613,444	925,372	1,538,816
	3,903,444	2,640,034	6,543,478

Notes to the Financial Statements (Cont)

5. Contributions (Cont)

Salary sacrifice contributions have been included within employee normal contributions.

Total employer contributions of £3.29m per annum are being paid to the DB Section of the Scheme until 31 March 2027 in accordance with a Recovery Plan to improve the Scheme's funding position. These contributions comprise normal contributions for active DB members, the provision of death in service benefits, the expenses of administering the Scheme (including PPF levies) and deficit shortfall contributions.

6. Transfers in

	Defined Benefit Section	2020 Defined Contribution Section	Total
	£	£	£
Individual transfers in from other schemes	-	55,457	55,457
		2019	
Individual transfers in from other schemes	-	61,173	61,173

7. Other income

	Defined Benefit Section	2020 Defined Contribution Section	Total
	£	£	£
Claims on term insurance policies	33,970	79,176	113,146
		2019	
Claims on term insurance policies	25,052	104,899	129,951

8. Benefits paid or payable

	Defined Benefit Section	2020 Defined Contribution Section	Total
	£	£	£
Pensions	4,595,048	-	4,595,048
Commutations and lump sum retirement benefits	1,482,117	178,368	1,660,485
Lump sum death benefits	148,439	89,467	237,906
	6,225,604	267,835	6,493,439
		2019	
Pensions	4,225,377	-	4,225,377
Commutations and lump sum retirement benefits	1,168,143	37,372	1,205,515
Lump sum death benefits	64,528	110,795	175,323
	5,458,048	148,167	5,606,215

Notes to the Financial Statements (Cont)

9. Payments to and on account of leavers

	2020 Defined Benefit Section	2020 Defined Contribution Section	2020 Total
	£	£	£
Refunds to members leaving service	-	4,099	4,099
Individual transfers to other schemes	127,069	182,952	310,021
	127,069	187,051	314,120

	2019 Defined Benefit Section	2019 Defined Contribution Section	2019 Total
Refunds to members leaving service	(14)	1,671	1,657
Individual transfers to other schemes	330,271	197,387	527,658
	330,271	199,058	529,315

10. Administrative expenses

	2020 Defined Benefit Section	2020 Defined Contribution Section	2020 Total
	£	£	£
Administration and processing	287,349	68,034	355,383
Actuarial fees	234,570	-	234,570
Audit fee	12,100	12,100	24,200
Legal and other professional fees	38,554	22,519	61,073
PPF Levy	91,414	4,544	95,958
Miscellaneous	1,571	86	1,657
	665,558	107,283	772,841

	2019 Defined Benefit Section	2019 Defined Contribution Section	2019 Total
Administration and processing	259,135	39,345	298,480
Actuarial fees	177,463	-	177,463
Audit fee	9,960	9,960	19,920
Legal and other professional fees	53,122	3,600	56,722
Secretarial fees	8,100	-	8,100
PPF Levy	97,325	-	97,325
Miscellaneous	3,594	269	3,863
	608,699	53,174	661,873

The Scheme bears all other costs of administration. The administration fees payable to the University's HR Department were £76,133 (2019: £69,690).

Notes to the Financial Statements (Cont)

11. Other payments

	Defined Benefit Section	2020 Defined Contribution Section	Total
	£	£	£
Premiums on term insurance policies	40,262	90,724	130,986
		2019	
Premiums on term insurance policies	39,165	92,239	131,404

A policy is held with Aviva Life & Pensions UK Ltd to cover the Scheme against lump sum payments in the event of a Member's death during service.

12. Investment income

	Defined Benefit Section	2020 Defined Contribution Section	Total
	£	£	£
Income from pooled investment vehicles	19,308,040	-	19,308,040
Annuity income	61,431	478	61,909
Currency gain	72,616	-	72,616
Interest on cash deposits	4,198	-	4,198
	19,446,285	478	19,446,763
		2019	
Income from pooled investment vehicles	10,438,419	-	10,438,419
Annuity income	61,320	-	61,320
Currency gain	200,461	-	200,461
Interest on cash deposits	2,622	64	2,686
	10,702,822	64	10,702,886

Notes to the Financial Statements (Cont)

13. Reconciliation of investments

	Value at 31 March 2019	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2020
	£	£	£	£	£
Defined Benefit Section					
Pooled investment vehicles	218,785,021	227,958,833	(221,995,596)	146,170	224,894,428
AVC investments	946,505	64,400	(129,335)	95,216	976,786
	219,731,526	228,023,233	(222,124,931)	241,386	225,871,214
Cash in transit	-				9,828,938
	219,731,526				235,700,152
Defined Contribution Section					
Pooled investment vehicles	14,100,520	4,383,891	(1,641,246)	(1,145,150)	15,698,015

Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. The amount of indirect costs is not separately provided to the Scheme.

The Defined Contribution Section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the Trustee. The Scheme administrator allocates investment units to members. The Trustee may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting. Defined contribution assets are allocated to members and the Trustee as follows:

	2020	2019
	£	£
Members	13,739,781	11,868,663
Trustee	1,958,234	2,231,857
	15,698,015	14,100,520

14. Investment management expenses

	Defined Benefit Section	Defined Contribution Section	Total
	£	£	£
2020			
Administration, management and custody	190,789	58,331	249,120
Advisory	300,000	-	300,000
	490,789	58,331	549,120
2019			
Administration, management and custody	201,605	42,342	243,947
Advisory	300,000	-	300,000
	501,605	42,342	543,947

Notes to the Financial Statements (Cont)

15. Taxation

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

16. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2020	2019
	£	£
Defined Benefit Section		
Equities	37,559,046	38,432,925
Bonds	18,555,165	35,705,399
LDI	66,453,014	58,975,240
Cash	43,922,679	29,558,526
Multi-Asset	49,682,965	13,671,065
Property	7,052,778	10,566,068
Derivatives	-	7,347,191
Hedge funds	1,668,781	24,528,607
	224,894,428	218,785,021
Defined Contribution Section		
Multi-Asset	12,180,309	10,393,978
Bonds	2,630,974	2,786,060
Equities	736,931	809,783
Cash	149,801	110,699
	15,698,015	14,100,520

The Multi-Asset funds hold a variety of investments including equities, bonds, derivatives and commodities.

17. Defined Benefit Section AVC investments

The Trustee holds assets invested separately from the main Defined Benefit Section investments to secure additional benefits on a money purchase basis for those Defined Benefit Section members electing to pay Additional Voluntary Contributions. Members participating in this arrangement each receive an annual statement made up to the Scheme year end confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	2020	2019
	£	£
Prudential Assurance Company Ltd - with-profits insurance policy	976,786	946,505

Notes to the Financial Statements (Cont)

18. Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets have been fair valued using the above hierarchy levels as follows:

	As at 31 March 2020			
	Level 1	Level 2	Level 3	Total
Defined Benefit Section	£	£	£	£
Pooled investment vehicles	43,922,679	172,599,432	8,372,317	224,894,428
AVC investments	-	-	976,786	976,786
Cash in transit	9,828,938	-	-	9,828,938
	53,751,617	172,599,432	9,349,103	235,700,152
Defined Contribution Section				
Pooled investment vehicles	-	15,698,015	-	15,698,015
	53,751,617	188,297,447	9,349,103	251,398,167

	As at 31 March 2019			
	Level 1	Level 2	Level 3	Total
Defined Benefit Section	£	£	£	£
Pooled investment vehicles	29,558,526	134,613,153	54,613,342	218,785,021
AVC investments	-	-	946,505	946,505
Cash in transit	-	-	-	-
	29,558,526	134,613,153	55,559,847	219,731,526
Defined Contribution Section				
Pooled investment vehicles	-	14,100,520	-	14,100,520
	29,558,526	148,713,673	55,559,847	233,832,046

Notes to the Financial Statements (Cont)

19. Investment risk disclosures

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

- Credit risk – this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk – this comprises currency risk, interest rate risk and other price risk:
  1. Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
  2. Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
  3. Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives.

The Trustee's risk management policy is documented in the Statement of Investment Principles. These investment objectives and risk limits are implemented through the agreements in place with the Scheme's DCIO and monitored by the Trustee through its reviews of the investment portfolio.

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks are set out below.

Defined Benefit Section

(i) Credit risk

The Scheme is subject to credit risk in three ways:

1. By investing in pooled investment vehicles, the Scheme is directly exposed to credit risk in relation to units (or equivalent) held in the pooled investment vehicles
2. The Scheme is also indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles, such as bonds and swaps.
3. By holding cash balances in a bank account.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate, and diversification of investments amongst a number of pooled arrangements.

A summary of the legal structure of the pooled investment vehicles held by the Scheme is shown below:

Legal structure	£m
Alternative Investment Fund Manager (AIFMD)	0.5
Open-ended investment company (OEIC)	7.9
Société d'investissement à Capital Variable (SICAV)	8.5
Irish Collective Asset-management Vehicle (ICAV)	58.0
Qualifying Investor Alternative Investment Fund (QIAIF)	57.9
Unit Linked Insurance Contracts	36.6
Investment Company with Variable Capital (ICVC)	2.0
Trust Company	9.6
Undertakings for the Collective Investment in Transferable Securities (UCITs)	43.9
Total	**224.9**

Notes to the Financial Statements (Cont)

19. Investment risk disclosures (Cont)

As DCIO, Towers Watson Ltd carries out due diligence checks on the appointment of new pooled investment managers and monitors incumbent managers on an ongoing basis, in particular where there are any changes to the regulatory and operating environment of the pooled manager.

Credit risk arising on bonds within a pooled investment vehicle is mitigated by investing predominantly in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. The Scheme also invests in non-investment grade bond pooled investment vehicles. This risk is managed by restrictions set in underlying manager documentation which aims to diversify the portfolio to minimise the impact of default by any one issuer.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). The Scheme holds pooled investment vehicles that invest in government bonds, OTC derivative contracts (e.g. Repurchase agreements, Interest rate swaps, inflation swaps and options contracts) and cash. These funds fulfil a specific purpose in the Scheme's investment strategy, which is either to match the characteristics of the Scheme's liabilities (Liability Driven Investments) or provide the Scheme with protection in a downside market event (Downside Risk Hedging). These investments are also discussed under interest rate risk.

Cash is held within financial institutions which are at least investment grade credit rated.

The DCIO is not permitted to participate in any securities lending on behalf of the Scheme except where lending takes place inside a pooled fund or through repurchase agreements as discussed above.

A summary of the investments subject to direct credit risk is shown in the table below:

Asset category	Investment grade	Un-rated	Total
Return - seeking	(£m)	(£m)	(£m)
Pooled investment vehicles	-	115.0	115.0
Liability matching	(£m)	(£m)	(£m)
Pooled investment vehicles	-	66.0	66.0
Cash	53.5	-	53.5
Total Scheme	**53.5**	**181.0**	**234.5**

A summary of the investments subject to indirect credit risk is shown in the table below:

Asset category	Investment grade	Non-investment grade	Total
Return - seeking	(£m)	(£m)	(£m)
Pooled investment vehicles	0.5	16.4	16.9
Liability matching	(£m)	(£m)	(£m)
Pooled investment vehicles	66.0	-	66.0
Cash	53.5	-	53.5
Total Scheme	**120.0**	**16.4**	**136.4**

(ii) Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets via pooled investment vehicles. The Trustee limits overseas currency exposure by imposing a minimum allocation to Sterling of 50% within the Fiduciary Management Agreement.

Notes to the Financial Statements (Cont)

19. Investment risk disclosures (Cont)

(iii) Interest rate risk

The Scheme is subject to interest rate risk through its credit holdings, the Downside Risk Hedging and on the Liability Driven Investments (LDI) which comprises government bonds, cash, interest rate swaps, inflation swaps and repurchase agreements held in pooled vehicles. The purpose of the Scheme's LDI investments is to match the interest rate (and inflation) sensitivity of the Scheme's liabilities. Therefore when considering the Scheme's liabilities, these investments are risk reducing.

As at 31 March 2020, the capital allocated to the liability matching portfolio represented c.28% of the total investment portfolio based on the fair value of the investments.

(iv) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes indirect investment in properties and other alternative investments via pooled vehicles. The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

Asset Class	Credit Risk		Market Risk		
	Indirect	Direct	Foreign exchange risk	Interest rate risk	Other price risk
Equities	-	✓	✓	-	✓
Credit	✓	✓	✓	✓	-
Property	-	✓	-	-	✓
Listed infrastructure	-	✓	✓	-	✓
Diversifying strategies	-	✓	✓	-	✓
Liability Driven Investments (High quality bonds and cash equivalents)	✓	✓	-	✓	-
Cash	✓	✓	-	-	-

Defined Contribution Section

Investment strategy

The Trustee's objective is to make available to members of the Scheme an appropriate range of investment options designed to generate income and capital growth, which together with new contributions from members and their Employer, will provide a retirement amount. The SIP outlines the investment objectives and strategy for the Defined Contribution (DC) assets of the Scheme.

The investment funds offered to members are white label funds provided by the investment provider as follows:

- Equity
- Bonds
- Cash
- Multi-assets

The Trustee has an investment management agreement in place with investment providers that sets out guidelines for the underlying investments held by the funds. The day to day management of the funds is the responsibility of the investment provider, including the direct management of credit and market risks. The investment provider may then itself delegate that responsibility to other providers. The Trustee monitors the underlying risks by quarterly investment reviews of the investment provider.

(i) Credit risk

The DC Section is exposed to credit risk through its holding in units of the funds provided by Zurich Assurance Limited. The investment provider is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders. The Trustee monitors the credit worthiness of the investment provider from time to time. The investment providers invest all the Scheme's funds in its own investment unit linked funds. In the event of default by the investment provider the Scheme is protected by the Financial Services Compensation Scheme. The DC section is also subject to indirect credit and market risk arising from the underlying investments held in the white label funds. Member level risk exposures will be dependent on the funds invested in by members. At the Scheme year-end, bond and cash funds were exposed to underlying credit risk. The Trustee only invests in funds where the financial instruments and all counterparties are at least investment grade.

Notes to the Financial Statements (Cont)

19. Investment risk disclosures (Cont)

(ii) Market risk

The Scheme's DC Section is subject to indirect foreign exchange, interest rate and other price risk arising from the underlying financial instruments held in the funds managed by the investment provider.

- The equity fund is exposed to foreign exchange and other price risk.
- The bond fund is exposed to foreign exchange and other price risk.
- The cash fund is exposed to foreign exchange and other price risk.
- The multi asset fund is exposed to foreign exchange, interest rate and other price risk.

20. Concentration of investments

The following investments each account for more than 5% of the Scheme's net assets at the year-end:

	2020		2019	
	£	%	£	%
Insight LDI Solutions Plus Long Fixed Fund	42,093,321	16.7	29,530,310	12.6
Insight Liquidity Fund	38,095,000	15.1	27,845,000	11.9
Towers Watson Diversifying Strategy Fund GBP	24,138,655	9.6	-	-
Towers Watson Diversifying Strategy Fund USD	17,662,060	7.0	-	-
Towers Watson Secure Income Fund	16,111,023	6.4	15,682,549	6.7
GPDK Robeco Global Sustainable	15,466,936	6.1		
Insight LDI Solutions Plus Short Real Fund	15,028,038	5.9	19,505,406	8.3

21. Current assets

	2020		
	Defined Benefit Section	Defined Contribution Section	Total
	£	£	£
Contributions due from employer in respect of:			
Employers	274,522	197,866	472,388
Employees	41,613	110,659	152,272
Other debtors	8,581	-	8,581
Prepayments	7,564	-	7,564
Cash balances	973,868	30,986	1,004,854
	1,306,148	339,511	1,645,659
	2019		
Contributions due from employer in respect of:			
Employers	274,167	153,389	427,556
Employees	44,213	82,265	126,478
Other debtors	12,797	-	12,797
Due from DC Section	92,239	-	92,239
Cash balances	911,074	64,330	975,404
	1,334,490	299,984	1,634,474

Contributions due to the Scheme at the year-end have been paid subsequent to the year-end in accordance with the Schedule of Contributions.

Included in the DC Section bank balance is £26,291 (2019: £363) which is not allocated to members.

Notes to the Financial Statements (Cont)

22. Current liabilities

	Defined Benefit Section	2020 Defined Contribution Section	Total
	£	£	£
Unpaid benefits	(121,482)	(4,696)	(126,178)
Accrued expenses	(143,796)	(19,287)	(163,083)
Other creditors	(5,123)	-	(5,123)
	(270,401)	(23,983)	(294,384)
		2019	
Unpaid benefits	(257,476)	(63,966)	(321,442)
Accrued expenses	(110,287)	(13,186)	(123,473)
Due to DB Section	-	(92,239)	(92,239)
Other creditors	(5,117)	-	(5,117)
	(372,880)	(169,391)	(542,271)

23. Related party transactions

The Scheme has received contributions in respect of Trustee Directors (Quentin Compton-Bishop & Jennifer Davies) who are contributing Members of the Scheme. These transactions are made in accordance with the Scheme Rules.

Transactions with related parties of the Scheme have been disclosed in the Annual Report as follows:

- Contributions receivable from the Employer are disclosed in note 5.
- The Scheme is administered by the Employer's HR department and the fees payable are included in note 10 under Administration expenses.

24. Employer-related investments

There were no direct employer-related investments at the year-end.

Contributions are normally received by the Trustee in the subsequent month to that in which they are due. Under the accruals basis of accounting, these contributions are therefore shown as outstanding. However, as the contributions were received in line with the Schedule of Contributions after the year end, they do not become employer-related investments.

25. GMP equalisation

As explained on page 7 in the Trustee's Report, on 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes.

The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts.

Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

Notes to the Financial Statements (Cont)

26 COVID-19

Subsequent to the Scheme's year-end, there has been significant volatility in markets as a result of the Coronavirus (COVID-19) pandemic. The Trustee considers the outbreak to be a non-adjusting post net asset statement event and as the situation is fluid and unpredictable, an estimate of the precise financial effect is not possible at the date of issue of the financial statements. The Trustee is monitoring the situation closely and liaising regularly with its investment adviser to consider any necessary actions to respond to the emerging issues.

The Trustee believes the Scheme's investment strategy is already significantly de-risked and does not expect there to have been a material change to the Scheme's funding position as a result of COVID-19. The funding level of the Scheme is kept under review by the Scheme's investment advisers and Scheme Actuary.

Certificate of Adequacy of Contributions

Actuarial Certification of Schedule of Contributions

Name of Scheme	**The University of Warwick Pension Scheme**
Effective date of valuation	**31 March 2019**

Adequacy of rates of contributions

I hereby certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective could have been expected on 31 March 2019 to be met by the end of the period specified in the recovery plan dated 5 June 2020

Adherence to Statement of Funding Principles

I hereby certify that, in my opinion, the Schedule of Contributions dated 5 June 2020 is consistent with the Statement of Funding Principles dated 5 June 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

Signature ..[redacted]........ Date: 5 June 2020 ....

Lloyd Cleaver
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson company

The Colmore Building
20 Colmore Circus Queensway
Birmingham
B4 6AT

Schedule of Contributions

Schedule of Contributions

Name of Scheme **The University of Warwick Pension Scheme**

In accordance with Section 227 of the Pensions Act 2004 UPS Pension Trustee Limited ("the Trustee") has prepared the following Schedule of Contributions for The University of Warwick Pension Scheme ("the Scheme"), after obtaining the advice of Lloyd Cleaver, the Scheme Actuary. The Trustee has discussed and agreed this Schedule of Contributions with the University of Warwick, on behalf of all participating employers (collectively referred to as "the University").

Contributions to be paid towards the Scheme from 1 June 2020 to 31 March 2027

Member Contributions – DB Section

Other than voluntary contributions, contributions of 5.5% per annum, expressed as a percentage of Pensionable Earnings, are payable towards the Scheme by, or on behalf of, active members.

University Contributions – DB Section

The Trustee and the University have agreed that overall flat rate contributions of £3.29m per annum are payable towards the Scheme by the University in monthly instalments, which comprises contributions in respect of future accrual of benefits of active DB Section members, the provision of death-in-service benefits, the expenses of administering the Scheme (including PPF levies) and deficit shortfall contributions.

In respect of future accrual of benefits of active DB Section members, the provision of death-in-service benefits and the expenses of administering the Scheme (including PPF levies), regular contributions of 25.6% per annum, expressed as a percentage of Pensionable Earnings, are included within the overall flat rate contribution figure of £3.29m per annum set out above.

In accordance with the Recovery Plan dated 5 June 2020, the remaining contribution within the overall flat rate contribution figure of £3.29m per annum (after taking into account the regular contributions of 25.6% per annum, expressed as a percentage of Pensionable Earnings, set out above) will be used to eliminate the funding deficit.

Member and University Contributions – Heritage DC Section

Active members of the Heritage DC Section can choose from Compulsory Contribution rates of 3%, 4% or 5% of Pensionable Earnings.

The level of University contributions will depend on the rate of Compulsory Contributions the member chooses to pay as set out in the table below:

Member Compulsory Contribution rate (as a % of Pensionable Earnings)	University contribution rate (as a % of Pensionable Earnings)
3%	6%
4%	8%
5%	10%

In addition to the Compulsory Contributions set out above, a member may, with the Trustee's agreement, also pay additional voluntary contributions (AVCs). There are no University matching contributions in respect of any AVCs. AVCs are those member only contributions paid over the maximum Compulsory Contribution of 5%.

Schedule of Contributions (Cont)

Member and University Contributions – Enterprise DC Section

Active members of the Enterprise DC Section must contribute at the rate of 5% of Qualifying Earnings.

The level of University contributions will be 3% of Qualifying Earnings.

In addition to the Compulsory Contributions set out above, a member may, with the Trustee's agreement, also pay AVCs. There are no University matching contributions in respect of any AVCs paid.

Reserve Account

The Trustee maintains a Reserve Account which, subject to adequacy, is available to be applied at the direction of the Principal Employer. The value of the Reserve Account shall never be less than zero. At this time, in line with the Letter of Direction dated 1 December 2017, the Principal Employer directs that the Reserve Account be used to meet DC Section expenses including the provision of life assurance and incapacity benefits.

In line with the Letter of Direction dated 1 December 2017, contributions to the Reserve Account in respect of the Heritage DC Section were set to nil with effect from 1 January 2018, with an annual review by University management to set appropriate future contribution levels.

In line with the Letter of Direction dated 1 December 2017, contributions to the Reserve Account in respect of the Enterprise DC Section were set to 0.5% of Pensionable Earnings with effect from 1 January 2018, with an annual review by University management to set appropriate future contribution levels.

Paying contributions

All contributions set out within this schedule are payable monthly and are to be made on or before the 19th of the month immediately following the month to which they relate.

For members of any section participating in Pensions Salary Sacrifice, the member's contributions will be paid by way of salary sacrifice in accordance with the terms of Pensions Salary Sacrifice. The total University contribution rate for these members will be the sum of the member's applicable contribution rate and the respective University contribution rate.

Schedule of Contributions (Cont)

Administration expenses

Administration expenses are met from the Scheme's assets. The Technical Provisions and contribution rates include an allowance for the expenses borne by the Scheme, including allowance for PPF levies.

This Schedule of Contributions has been agreed by the Trustee of The University of Warwick Pension Scheme:

Signed on behalf of the Trustee of The University of Warwick Pension Scheme

[redacted]

Name: Prof Stuart Palmer

Position: Trustee

Date: 5 June 2020

Name: Hugh James Hunt

Position: Trustee Chairman

Date: 5 June 2020

This Schedule of Contributions has been agreed by the University:

Signed on behalf of the University

[redacted]

Name: Andrew Smith

Position: Finance Director - University of Warwick

Date: 5 June 2020

Chair's Statement

UPS Pension Trustee Limited

Chair's annual statement regarding defined contribution benefits held in the University of Warwick Pension Scheme ("the Scheme")

1 Introduction

1.1. This statement has been prepared by UPS Pension Trustee Limited ("the Trustee"), the Trustee of the University of Warwick Pension Scheme ("the Scheme"), and reports upon how the Trustee has complied with the defined contribution (DC) governance standards. These standards were introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and amended by the Occupational Pension Scheme (Administration and Disclosure) (Amendment) Regulations 2018 ("the Regulations").

1.2. The reporting period covered by this statement is 1 April 2019 to 31 March 2020 ("the reporting period").

1.3. As required by the Regulations, the Trustee will publish this Statement on a publicly accessible website. The web address for the website will be: https://warwick.ac.uk/pensions/ups

2 The Scheme's DC arrangements

2.1. Over the reporting period, the Scheme's DC arrangements comprised the following:

2.1.1. A Defined Contribution Section ("the DC Section") which is open to future contributions and is used as a qualifying workplace pension scheme for auto-enrolment purposes. This is a bundled arrangement with administration and investment management services provided by Scottish Widows.

2.1.2. A separate AVC arrangement provided by Prudential which holds benefits for Defined Benefit Section ("the DB Section") members.

3 The DC Section's default investment arrangement

3.1. Over the reporting period, the DC Section had one default investment arrangement for the purposes of the regulations, the Scottish Widows Passive Interim Lifestyle Strategy (previously Zurich Passive Interim Lifestyle Strategy). This was implemented in January 2017 and its design took account of the needs of DC Section members as well as the Trustee's own investment beliefs.

3.2. The key features of the Scottish Widows Passive Interim Lifestyle Strategy are as follows:

3.2.1. It is structured as a lifestyle investment strategy which invests across a series of different multi-asset investment funds depending upon each member's term to their Normal Retirement Age (NRA). The multi-asset funds are designed to provide exposure to different degrees of investment risk.

3.2.2. When a member is more than 42 years from NRA, the Scottish Widows Passive Interim Lifestyle Strategy will invest wholly in the Multi-Asset V Fund.

Chair's Statement (Cont)

3.2.3. From 42 years up to 7 years before each members NRA, the Scottish Widows Passive Interim Lifestyle Strategy looks to reduce the level of investment risk by automatically and gradually switching out of the Multi-Asset V Fund. It initially switches into the Multi-Asset IV Fund, followed by the Multi-Asset III Fund and then the Multi-Asset II Fund. At 7 years from NRA it will invest wholly in the Multi-Asset II Fund.

3.2.4. Over the final 7 years to NRA, the Scottish Widows Passive Interim Lifestyle Strategy will gradually switch a proportion of each member's investments into the Annuity Purchase Fund and the Money Market Fund. At NRA it will target a portfolio that invests 35% in the Multi-Asset II Fund, 40% in the Annuity Purchase Fund and 25% in the SW Money Market Fund.

3.3. The Scottish Widows Passive Interim Lifestyle Strategy aims to grow the value of a member's benefits over the longer term whilst providing less volatility (but a potentially lower return) than investing solely in a portfolio of global equities. The value of these funds can go down as well as up.

3.4. The Scottish Widows Passive Interim Lifestyle Strategy is designed to limit the extent to which members' benefits are exposed to large fluctuations in value in the approach to NRA. The portfolio at NRA has been designed to provide flexibility at retirement by being broadly appropriate regardless of how each member takes their retirement income (e.g. cash, annuity purchase or drawdown).

3.5. Alongside the Scottish Widows Passive Interim Lifestyle Strategy, the Trustee has made available three additional investment strategies that target Annuity Purchase, Drawdown and Cash at NRA. These all use the same portfolio for growth as the Scottish Widows Passive Interim Lifestyle Strategy and it is only in the final 7 years where the investment portfolio varies.

3.6. The Trustee also provides access to a range of DC Section specific investment funds for members to self-select: the UPS Balanced Growth Fund, the UPS Equity Growth Fund, the UPS Money Market Fund, the UPS Pre-Retirement Fund and the underlying investment portfolios that make up the Passive Lifestyle Strategies. These consist of the SW Passive Annuity Purchase, the SW Passive Multi Asset I, the SW Passive Multi Asset II, the SW Passive Multi Asset III, the SW Passive Multi Asset IV, the SW Passive Multi Asset V and the SW Money Market.

3.7. The Trustee, together with its professional advisers, monitors the investment options accessed through the DC Section on a quarterly basis. This monitoring looks at the performance of the funds, to ensure that they are consistent with the stated aims and objectives, as well as any developments or changes at the fund manager. The Trustee is happy that the Scottish Widows Passive Interim Lifestyle Strategy has performed in line with its stated aims and objectives over the reporting period.

3.8. The last strategic review of the DC Section's default investment arrangement was undertaken by the Trustee on 22 May 2019. As part of this review, the Trustee considered the on-going suitability of the default investment arrangement with specific reference to the membership profile of the DC Section and the potential needs of members at retirement.

Chair's Statement (Cont)

3.9. The Trustee noted that Scottish Widows had announced plans to implement changes to the composition of the Scottish Widows Passive Interim Lifestyle Strategy in the near future and so agreed to undertake a further review of the DC Section's default investment strategy in the next Scheme year when further details had been confirmed.

3.10. It was agreed that as the membership profile had not changed the default investment arrangement remained suitable, albeit pending the future changes being made by Scottish Widows.

3.11. A further review of the default investment arrangement, as well as the wider range of investment options offered to members, was undertaken on 11 May 2020, outside of this reporting period. The results of this review will be reported in next year's Statement.

3.12. Information on the range of investment options provided through the DC Section is available in the Statement of Investment Principles (SIP) which was last reviewed in September 2020. This has been published online alongside this Chair's Statement. For the purposes of Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 the SIP sets out further details around the Trustee's investment objectives, as well as the default investment strategy.

4. Core financial transactions

4.1. The Regulations require the Trustee to ensure that core financial transactions are processed promptly and accurately. Core financial transactions comprise:

4.1.1. The investment of contributions.

4.1.2. Transfers into and out of the DC Section.

4.1.3. Investment switches.

4.1.4. Payments out of the DC Section in respect of members.

4.2. To ensure the accuracy and timeliness of all DC Section core financial transactions, the Trustee has established robust reporting and monitoring processes.

4.3. The day-to-day monitoring of administration standards is undertaken by the University's "in-house" pension's team who scrutinise the performance of all service providers to the DC Section. The Pensions Manager reports back to the Trustee on anecdotal experience as part of the quarterly Trustee meetings and any immediate concerns are escalated to the Trustee as appropriate.

4.4. Service Level Agreements (SLAs) have been agreed as part of the contract between the Trustee and Scottish Widows. These SLAs set out the agreed maximum timescales for each task to be completed and also the percentage of tasks expected to be completed within these timescales. Scottish Widows separates its SLA's across the areas in the table below and core financial transactions are included under 'Time Critical Processes':

Chair's Statement (Cont)

SLA area	Performance target
Time Critical Processes	100%
Manual Administration	95%
Call Handling	97%

4.5. The agreed SLAs for each of the individual core financial transactions identified in 4.1 above are as follows:

Core financial transaction	SLA
Investment of contributions	24 hours from date of receipt
Transfer into the DC Section	Act on instruction by end of the following Business Day
Transfer out of the DC Section	Act on instruction within 2 Business Days
Investment switches	Act on instruction by end of the following Business Day
Payments out of the Plan	Act on instruction within 2 Business Days

4.6. With effect from July 2019 Scottish Widows have also reported on 'Manual Financial Transactions Accuracy'. The target for this is 100%.

4.7. Scottish Widows provides the Trustee with quarterly administration reports that document its performance against the agreed SLAs. The Trustee considers these reports in detail as a regular item at its quarterly meetings.

4.8. Over the reporting period, Scottish Widows completed an average of 95.7% of its Time Critical Processes within the target SLA's.

Since it has been included in reporting, 'Manual Financial Transactions Accuracy' has been 100%.

4.9. As part of its ongoing consideration of service standards, the Trustee noted that the SLAs achieved by Scottish Widows over the reporting period for its Time Critical processes had fallen below the target of 100% and Scottish Widows was asked to provide further detail on this point as part of the quarterly Trustee meeting. In Q2 2019 Scottish Widows suffered from system outages which reduced capacity. A full review was conducted to ensure that no detrimental impact was suffered by any customers. Root cause analysis has been completed on all failed SLA tasks, and appropriate action taken to reduce any issues going forward.

4.10. Administration is captured as part of the Scheme's risk register and any DC Section specific risks are clearly documented. This includes details of the controls established by the Trustee and records details of any required actions.

4.11. Monitoring of accuracy is undertaken via the auditing of the Scheme's annual report and accounts and periodic auditing of the Scheme's membership data. In addition, the administrator's processes are subject to internal controls procedures.

4.12. There were no significant issues reported to or identified by the Trustee in connection with either the promptness or accuracy of core financial transactions processed during the period covered by this statement. As is mentioned above, there was some underperformance against SLAs, and this has been addressed. The Trustee will continue to monitor this.

Chair's Statement (Cont)

4.13. As the administrator of the Defined Benefit Section ("the DB Section") of the Plan, the Trustee has delegated the administrative oversight of the separate AVC arrangements held with Prudential to Barnett Waddingham.

4.14. Barnett Waddingham report back to the Trustee as part of the quarterly Trustee meetings with any specific issues relating to the administration of the separate AVC policies.

4.15. There were no investment transitions completed over the reporting period.

4.16. Taking the above into consideration, the Trustee is confident that all core financial transactions over the reporting period have been processed promptly and accurately. There were some minor issues in relation to promptness, in that some time critical processes fell outside of target but this has been investigated and no members were subject to any detrimental impact. The Trustee notes that there were no issues relating to core financial transactions over the reporting period.

5. Charges and transaction costs

5.1. Charges for the administration, communication and investment services provided to the Scheme's DC arrangements are structured on a bundled basis. Members bear the costs deducted from the funds in which their DC pension savings are invested. The charges differ between the investment options available and consist of both explicit and implicit costs:

5.1.1. Explicit costs: these are collected by explicit deduction of investment units and are expressed as a percentage of the value of each member's holdings within an investment fund. These are referred to as a Total Expense Ratio (TER) and include the explicit Annual Management Charge (AMC) and the Fund Charge (FC) incurred over the period.

5.1.2. Implicit costs: these relate to the charges and transaction costs incurred within an investment fund arising from the trading activities of the fund e.g. incurred in the buying and selling of securities, which are not accounted for in the explicit charges. These implicit charges impact on the investment returns achieved by the investment fund and vary day-to-day according to each fund's investment approach and prevailing market conditions. We refer to these as Transaction Costs.

Chair's Statement (Cont)

5.2. The following table provides details of the explicit and implicit costs applied to each of the investment options provided through the DC Section over the reporting period. This data has been sourced from Scottish Widows:

Investment option	Fund Charge (FC)	Annual Management Charge (AMC)	Total Expense Ratio (TER)	Transaction Costs*
SW Money Market CS1**	0.440%	0.156%	0.596%	0.005%
SW Passive Annuity Purchase CS1*/**	0.410%	0.085%	0.495%	-0.041%
SW Passive Multi-Asset I CS1**	0.410%	0.093%	0.503%	-0.038%
SW Passive Multi-Asset II CS1**	0.420%	0.094%	0.514%	-0.039%
SW Passive Multi-Asset III CS1**	0.420%	0.097%	0.517%	-0.041%
SW Passive Multi-Asset IV CS1**	0.410%	0.094%	0.504%	-0.040%
SW Passive Multi-Asset V CS1**	0.410%	0.093%	0.503%	-0.034%
UPS Balanced Growth*	0.410%	0.086%	0.496%	-0.034%
UPS Equity Growth*	0.410%	0.084%	0.494%	-0.030%
UPS Money Market	0.360%	0.140%	0.500%	0.014%
UPS Pre-Retirement	0.410%	0.087%	0.497%	-0.170%

*In certain circumstances the methodology used for calculating transaction costs (known as slippage) can lead to negative costs being reported. This can be, for example, where other market activity pushes the price of the asset being traded down, whilst the transaction was in progress, resulting in the asset being purchased for a lower price than when the trade was initiated.

** funds used in the default investment strategy.

5.3. Plan members that hold AVC benefits with Prudential are invested in the Prudential With Profits Fund. Details of the charges and transaction costs quoted by Prudential for the With Profits Fund are provided in the table below:

Investment option	TER	Transaction costs
Prudential With-Profits Cash Accumulation Fund	0.80%**	0.09%***

**This is an implicit charge that is deducted from regular bonuses before they are applied. Prudential have stated that this is the expected TER based on the assumption that future investment returns in the With-Profits Fund are 5% a year, and that charges on with-profits business depend on "the performance of the With-Profits Fund and, in particular, the investment returns achieved and expenses incurred".

Chair's Statement (Cont)

***The Transaction costs quoted are for the period 1 January 2019 to 31 December 2019. The Trustee requested costs for the Plan year but Prudential have not been able to provide these in time for production of this statement. The Trustee in conjunction with its advisers will continue to exert pressure on Prudential to supply this information (as they are required to do) and will include relevant transaction cost information in future statements. Prudential is aiming to be able to refresh its transaction cost data at the start of each quarter and expects to be able to provide data for the year to 31 March 2020 by the end of August 2020. Once received, the Trustee will review this information to understand whether it has a material impact upon the figures quoted above. The Trustee is working with its advisers and will continue to exert pressure on Prudential to ensure this information can be included in future years.

6. Demonstrating the impact of costs and charges

6.1. To demonstrate the impact of the costs and charges applied through the DC Section, in this year's Chair's Statement the Trustee, supported by Scottish Widows, has provided illustrations in line with September 2018 guidance from the Department for Work & Pensions entitled "Cost and charge reporting: guidance for trustees and managers of occupational schemes". These illustrations are set out in a series of tables below, and are designed to cater for representative cross-sections of the membership of the Scheme's DC Section.

6.2. For each individual illustration, each savings pot has been projected twice; firstly to allow for the assumed investment return gross of the costs and charges of the fund, and then again, but adjusted for the cumulative effect of the costs and charges of the fund.

6.3. To determine the parameters used in these illustrations, the Trustee, with support from the DC Section provider, Scottish Widows, has analysed the membership of the DC Section and ensured that the illustrations take into account the following:

6.3.1. A representative range of pot sizes.

6.3.2. A representative range of real terms investment returns (gross of costs and charges), including the lowest, the highest and the most popular (by number of members).

6.3.3. A representative range of costs and charges, including the lowest and the highest.

6.3.4. A representative period of membership, covering the approximate duration that the youngest member would take to reach target investment age.

6.4. The Trustee has included future contributions in these illustrations as the DC Section remains open to contributions. For those members who are no longer active, the Trustee has also produced illustrations that assume no future contributions will be paid.

The following notes on the illustrations should also be read:

1. Projected pot sizes are shown in today's terms and do not need to be reduced further for the effects of future inflation. Inflation is assumed to be 2.5%.
2. The retirement age is assumed to be age 65.

Chair's Statement (Cont)

3. The starting pot size is assumed to be £2,000.
4. Contributions are assumed to be £150 per month for active members with no contributions from deferred members.
5. Values shown are estimates and not guaranteed.
6. The charges used are those shown earlier in this Chair's Statement. Scottish Widows were unable to use an average over the last 5 years, these costs are for the year to 31 March 2020).
7. The projected growth rates, gross of costs and charges, for each fund or arrangement are in line with the 2019 Statutory Money Purchase Illustrations (SMPIs), as follows:

Years to retirement	Projected Growth Rate (Average)
1	0.50% below inflation
3	0.30% below inflation
5	0.10% below inflation
10	0.20% above inflation
15	0.40% above inflation
20	0.50% above inflation
25	0.70% above inflation
30	0.80% above inflation
35	0.80% above inflation

Fund	Projected Growth Rate (Average)
SW Passive Annuity Purchase CS1	1.0% below inflation
SW Money Market CS1	1.5% below inflation
UPS Equity Growth	1.9% above inflation
UPS Money Market	1.5% below inflation

Chair's Statement (Cont)

Default Lifestyle Strategy – Active members

This has been selected as it is the most popular investment option selected through the DC Section. The illustrations show the impact of cost and charges for an active member investing in the strategy to age 65 starting at different ages. The illustrations assume a £150 per month contribution and a starting pot size of £2,000.

Years	Age Now 60		Age Now 55		Age Now 45		Age Now 35		Age Now 20	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	3,790	3,770	3,800	3,780	3,810	3,800	3,810	3,800	3,830	3,810
3	7,360	7,290	7,460	7,390	7,510	7,440	7,530	7,460	7,600	7,520
5	10,800	10,600	11,100	10,900	11,200	11,100	11,300	11,100	11,500	11,300
10			20,000	19,400	20,900	20,300	21,400	20,800	21,700	21,100
15					30,900	29,700	31,900	30,600	32,500	31,200
20					39,900	37,700	42,700	40,400	44,200	41,600
25							53,700	50,100	56,700	52,900
30							62,700	57,700	69,600	64,000
35									82,300	74,600

Note on how to read this table: If an Active member aged 20 had £2,000 invested in this strategy, when they came to retire in 35 years, the fund could grow to £82,300 if no charges are applied but to £74,600 with charges applied.

Default Lifestyle Strategy – Deferred members

This has been selected as it is the most popular investment option selected through the DC Section. The illustrations show the impact of cost and charges for a deferred member investing in the strategy to age 65 starting at different ages. The illustrations assume a starting pot size of £2,000 and that no further contributions are made.

Years	Age Now 60		Age Now 55		Age Now 45		Age Now 35		Age Now 20	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	2,010	2,000	2,010	2,000	2,020	2,010	2,020	2,010	2,030	2,020
3	2,010	1,980	2,050	2,020	2,080	2,050	2,080	2,050	2,110	2,080
5	2,000	1,950	2,090	2,030	2,130	2,070	2,150	2,090	2,190	2,140
10			2,090	1,990	2,240	2,120	2,310	2,190	2,380	2,260
15					2,340	2,160	2,460	2,260	2,560	2,370
20					2,350	2,120	2,590	2,340	2,750	2,490
25							2,710	2,380	2,960	2,610
30							2,710	2,330	3,160	2,710
35									3,320	2,780

Note on how to read this table: If a Deferred member aged 20 had £2,000 invested in this strategy, when they came to retire in 35 years, the fund could grow to £3,320 if no charges are applied but to £2,780 with charges applied.

Chair's Statement (Cont)

Self select funds – Active members

The illustrations shown below are for a representative selection of the funds members may invest in through the DC Section. They were selected to reflect the range of projected returns and charges. The illustrations assume a £150 per month contribution and a starting pot size of £2,000.

Years	SW Passive Annuity Purchase CS1		UPS Equity Growth		UPS Money Market		SW Money Market CS1	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	3,740	3,730	3,830	3,810	3,730	3,720	3,730	3,710
3	7,190	7,120	7,600	7,530	7,130	7,060	7,130	7,050
5	10,500	10,400	11,500	11,300	10,400	10,200	10,400	10,200
10	18,700	18,200	22,000	21,400	18,200	17,700	18,200	17,600
15	26,500	25,500	33,500	32,100	25,500	24,500	25,500	24,300
20	33,900	32,200	46,200	43,800	32,300	30,700	32,300	30,400
25	40,900	38,500	60,200	56,200	38,600	36,300	38,500	35,900
30	47,600	44,300	75,700	69,600	44,400	41,300	44,400	40,800
35	54,000	49,700	92,700	84,000	49,900	45,900	49,800	45,200

Note on how to read this table: If an Active member aged 20 had £2,000 invested in the UPS Equity Growth Fund, when they came to retire in 35 years, the fund could grow to £92,700 if no charges are applied but to £84,000 with charges applied.

Self select funds – Deferred members

The illustrations shown below are for a representative selection of the funds members may invest in through the DC Section. They were selected to reflect the range of projected returns and charges. The illustrations assume a starting pot size of £2,000 and that no further contributions are made.

Years	SW Passive Annuity Purchase CS1		UPS Equity Growth		UPS Money Market		SW Money Market CS1	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	1,980	1,970	2,030	2,020	1,970	1,960	1,970	1,950
3	1,940	1,910	2,110	2,080	1,910	1,880	1,910	1,870
5	1,900	1,850	2,200	2,140	1,850	1,810	1,850	1,800
10	1,810	1,720	2,420	2,300	1,720	1,640	1,720	1,620
15	1,720	1,600	2,670	2,460	1,600	1,480	1,600	1,460
20	1,640	1,480	2,940	2,660	1,490	1,340	1,490	1,320
25	1,560	1,380	3,240	2,860	1,390	1,220	1,380	1,190
30	1,490	1,280	3,570	3,070	1,290	1,100	1,280	1,070
35	1,410	1,190	3,930	3,300	1,200	1,000	1,190	970

Note on how to read this table: If a Deferred member aged 20 had £2,000 invested in the UPS Equity Growth Fund, when they came to retire in 35 years, the fund could grow to £3,930 if no charges are applied but to £3,300 with charges applied.

Chair's Statement (Cont)

7. Value for members

7.1. The Regulations require the Trustee to assess the extent to which the charges and transaction costs borne by members represent good value. These member borne deductions cover the cost of providing the investment management services, administration services and communications.

7.2. The annual value for members' assessment relating to the reporting of this Statement was undertaken by the Trustee's professional advisers, Barnett Waddingham LLP, as at 31 March 2020.

7.3. The assessment recognised that low cost does not necessarily mean better value, so considered a range of different factors, including:

7.3.1. in relation to investment services:

7.3.1.1. the range of investment options available and the design and suitability of the default investment arrangement.

7.3.1.2. the arrangements for monitoring the performance of the investment funds.

7.3.1.3. the investment governance arrangements in place.

7.3.2. in relation to administration services:

7.3.2.1. the arrangements for monitoring the service standards of the administrator.

7.3.2.2. the administration procedures and process.

7.3.2.3. data and record keeping practices.

7.3.3. in relation to communication services:

7.3.3.1. the design of the communications strategy.

7.3.3.2. the quality of communications issued to members.

7.3.3.3. the degree of support provided to members.

7.3.4. other options available in the market.

7.4. The assessment considered various factors under each element and looked at these in 'Absolute' and 'Relative' terms. Absolute considering the DC Section on its own merits and Relative comparing to alternative options.

7.5. The assessment concluded that the DC Section continues to provide **excellent value** for members and that there are no areas in which the DC Section's arrangements detract value.

7.6. This rating is based on the ongoing governance work undertaken by the Trustee and wider administrative and engagement support provided by Scottish Widows.

Chair's Statement (Cont)

7.7. As part of its independent assessment as at 31 March 2020, Barnett Waddingham also reviewed the degree to which the AVC benefits invested with Prudential represent value for members. This assessment highlighted that the arrangements operate via legacy platforms and that there is limited scope for making significant improvements given their size. However the assessment concluded that the AVC arrangement provides **reasonable value** to members for the following reasons:

7.7.1. Members investing in the arrangement can use their benefits to fund their tax free cash entitlements through the defined benefit (DB) section of the Scheme.

7.7.2. The charges are broadly aligned with similar types of arrangements offered elsewhere.

7.7.3. Members benefit from the administration services provided by Barnett Waddingham in the ongoing management of these benefits.

8 Trustee knowledge and understanding

8.1. Over the reporting period the Trustee comprised six Trustee Directors, of whom one is the Chair. Two of the Trustees are member-nominated and four are employer nominated, meeting statutory requirements for the composition of trustee boards.

8.2. All Trustee Directors are asked to complete a formal training programme both following appointment and on an ongoing basis to ensure they have the necessary skills and knowledge required to effectively discharge their duties.

8.3. A skills matrix is in place which identifies the expertise each Trustee Director brings to the Board and is used to identify any specific areas whether further training may be needed.

8.4. Trustee training is considered at Trustee meetings and the Trustee Directors are asked to provide feedback and suggest topics for future training sessions. External training is also sought on topics relevant to the Trustee Directors duties.

8.5. Over the reporting period, the Trustee Directors undertook training which included, but is not limited to:

8.5.1. 22 May 2019 ISC meeting – a session on integrating ESG into DC schemes was provided to the Trustee. The Trustee were also updated on wider DC Governance topics including new legislative requirements surrounding Cost and Charges Disclosures.

8.5.2. 23 January 2020 Trustee meeting – an update was provided to the Trustee by its DC advisers on the current Regulatory Environment and its impact on the DC section of the Scheme. Topics surrounding the future of DC arrangements were discussed including the increase in Master Trust usage.

8.6. The Trustee Directors all undertake training in an individual capacity and keep updated training records that are monitored by the Pensions Manager.

Chair's Statement (Cont)

8.7. The Trustee considers that its training is consistent with TPR's Trustee Knowledge and Understanding requirements (Code of Practice 7) and provides a mixture of generic and bespoke training sessions. This, together with the ongoing work in relation to the DC Section and the access to professional advisers ensures that the Trustee has sufficient knowledge and understanding of the relevant principles relating to the funding, investment of occupational schemes and the law relating to pensions and trusts.

8.8. The Trustee consults externally with its professional advisers as and when required, for example on investments, governance and legal matters. Its professional advisers alert the Trustee on a proactive basis to relevant changes in pensions legislation.

8.9. The Trustee Directors are aware of their legal duties in relation to the DC Section's trust deed and rules as well as other relevant Plan documentation, both through their overall experience in managing the DC Section as well as the Trustee's review of such documentation over the reporting period. The following documents were reviewed over the reporting period:

8.9.1. The Trustee, alongside its professional advisers, completed a review of the DC Section's Statement of Investment Principles (SIP) to take account of ESG factors.

8.9.2. The risk register is reviewed at least every 6 months to ensure that all relevant risks have been identified.

8.9.3. The member DC booklets have recently been updated and a review of pension material is diarised in the business plan each year.

8.9.4. The Trustee formally reviewed and documented its objectives for the DC Section's investment advisers.

8.9.5. The Trustee assessed the value for members provided by the Scheme's DC arrangements and documented their governance of these in an annual governance statement.

8.10. The Trustee considers that the combined knowledge of the Trustee Board, skills and understanding together with the advice which is available to the Trustee from its professional advisers enables the Trustee to properly exercise its Trustee functions.

[redacted]

James Hunt, for and on behalf of the Trustee of the University of Warwick Pension Scheme
Chair of the Trustee

25/9/20

Date

Appendix 1 - DC Section Statement of Investment Principles

The University of Warwick Pension Scheme

Defined Contribution Section and Additional Voluntary Contribution arrangement – Statement of Investment Principles

Date signed:

Appendix 1 - DC Section Statement of Investment Principles (Cont)

Contents

Appendix 1 - DC Section Statement of Investment Principles (Cont)

1. Introduction

1.1. This Statement of Investment Principles ("the Statement") has been prepared by UPS Pension Trustee Limited ("the Trustee") and relates to the defined contribution (DC) benefits ("the DC Section") provided through The University of Warwick Pension Scheme ("the Scheme"). The Statement sets out the principles which govern the decisions about the 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 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015, incorporating changes as required by 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 Trustee has consulted the University of Warwick, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

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

1.4. The Trustee 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 or the demographic and profile of members.

1.5. The investment powers of the Trustee are set out in Section 10 of the DC Trust Deed and Rules, dated March 2010. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee carefully considers its Investment Objectives, shown in the Appendix, when designing the range of investment options to offer to its members. The Trustee also acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings – and therefore, whilst seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of the DC Section.

2.2. The Trustee's policy is to offer a range of lifestyle investment arrangements and a core range of investment funds that are suitable for the DC Section's membership profile and into which members can choose to invest their contributions and those contributions made by the employer. Details of these are given in the Appendix. In doing so, the Trustee considers the advice of their professional advisers, whom they consider to be suitably qualified and experienced for this role.

2.3. The DC Section is a bundled arrangement that is insured and invested with Scottish Widows. The day-to-day management of the DC Section's assets is delegated to Scottish Widows and through Scottish Widows

Appendix 1 - DC Section Statement of Investment Principles (Cont)

the Trustee can access pooled funds from a range of other investment managers as well as Scottish Widow's own funds.

2.4. The DC Section's Default Option (outlined in the Appendix) is structured as a 'governed' investment solution which is designed and implemented by Scottish Widows. Scottish Widows is responsible for the selection and deselection of the underlying investment managers used through the Default Option as well as the ongoing relationships with the investment managers. The Trustee understands that Scottish Widows will appoint investment managers to be used by the Default Option with an expectation of a long-term partnership, which encourages active stewardship of the Scheme's assets.

2.5. The DC Section'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 responsibility le for stock selection and the exercise of voting rights.

2.6. The Trustee reviews the appropriateness of the DC Section's investment strategy on an ongoing basis and is supported in this regard by its Investment Sub-Committee (ISC). The ISC has a 'terms of reference' which sets out its roles, responsibilities and powers. This ongoing review includes consideration of the continued competence of Scottish Widows and its ongoing management of the Default Option as well as any other investment managers utilised through the DC Section with respect to their performance against their stated objectives and benchmarks.

2.7. The Trustee will consult the employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed and agreed key investment objectives in light of an analysis of the DC Section's membership profile as well as the constraints the Trustee faces in achieving these objectives. These are set out in the Appendix.

4. Kinds of investments to be held

4.1. The DC Section is permitted to invest in a wide range of assets including equities, bonds, cash, commercial property and alternatives.

5. The balance between different kinds of investments

5.1. Members can choose to invest in any of the funds detailed in the Appendix or can elect to invest in a lifestyle strategy. Where members do not choose where their contributions, and those made on their behalf by the employer, are invested, the Trustee will invest these contributions according to the default investment option set out in the Appendix.

5.2. The Trustee considers the merits of both active and passive management for the various elements of the DC Section's portfolio and may select different approaches for different asset classes or strategies.

Appendix 1 - DC Section Statement of Investment Principles (Cont)

5.3. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.

6. Risks

6.1. Risk in a defined contribution scheme lies with the members themselves. The Trustee has considered a number of risks when designing and providing suitable investment choices to members. A comprehensive list of risks is set out in the Trustee risk register, however, the main investment risks affecting all members are:

Inflation risk	The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term real rate of return.
Conversion risk	The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the lifestyle arrangements made available through the DC Section (see Appendix), the Trustee changes the proportion and type of investments so that in the run up to retirement the investments gradually start to more closely match how the Trustee expects members to access their retirement savings. The Trustee keeps under review the appropriateness of the strategies.
Retirement income risk	The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustee periodically reviews the appropriateness of the investment options offered to ensure member outcomes can be maximised. Communications to members will seek to encourage them to regularly review the level of their contributions, but ultimately this is a risk which lies with each member.
Investment manager risk	The Trustee monitors the performance of the DC Section's investment managers on a regular basis in addition to having meetings with them from time to time as necessary.
Concentration/ Market risk	Each investment manager is expected to manage properly diversified portfolios and to spread assets across a number of individual shares and securities.
Currency risk	The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	The risk of loss of investment by the investment manager and custodian will be assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

Appendix 1 - DC Section Statement of Investment Principles (Cont)

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return, net of fees, and risk that each asset class is expected to provide. The Trustee is advised by its professional advisors on these matters, whom it has deemed to be appropriately qualified. However, the day-to-day selection of investments is delegated to the investment managers.

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

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to its investment managers.

9. Socially Responsible Investment, Corporate Governance and Voting Rights

9.1. At the time of writing the Trustee is at a relatively early stage in developing its policy with regards to the new regulatory requirements on responsible investing, stewardship and sustainability. As developments occur, the Trustee will review its policy in this area and amend it from time to time.

9.2. The Trustee believes long-term sustainability to be an important and relevant issue to consider throughout the investment process. In particular the Trustee recognises that:

9.2.1. An investment's ability to meet the Trustee's objectives can be influenced by a wide range of factors including environmental, social and governance (ESG) issues and stewardship

9.2.2. ESG considerations and stewardship are therefore important aspects of responsible financial risk management in order to protect the value of investments and should improve long-term member financial outcomes.

9.3. Where ESG factors, stewardship and broader sustainable investment considerations are deemed to be financially material, the Trustee believes that they should be taken into account within the investment decision-making process.

9.4. The Trustee may consider non-financial matters as part of its overall decision making and setting of investment strategy including as and when views are proactively raised by members, and will continue to monitor and review its approach in this area.

9.5. As the DC Section's investments are held in pooled funds, ESG considerations are implemented by the investment managers of each fund. The Trustee monitors how ESG, climate change and stewardship are integrated within the investment process adopted by the investment managers and considers these issues with reference to its own beliefs as part of the criteria when reviewing the suitability of the DC Section's investment options.

Appendix 1 - DC Section Statement of Investment Principles (Cont)

Stewardship and asset manager arrangements

9.6. The Trustee delegates the exercise of rights (including voting rights) attached to the DC Section's investments to its investment managers. The Trustee expects Scottish Widows to monitor and report annually on the investment managers' approach to selecting investments, voting and engaging with companies with reference to ESG issues.

9.7. The Trustee considers it to be part of the role of their investment managers to assess and monitor how the companies in which they are investing are managing developments around ESG related issues on behalf of the DC Section.

9.8. When selecting investments to be used by the Default Option, the Trustee expects Scottish Widows to appoint managers with an expectation of a long-term partnership, which encourages active ownership of the DC Section's assets. The Trustee expects Scottish Widows to actively engage with the investment managers to drive improved performance over the medium to long-term within the wider context of long-term sustainable investment. The Trustee also expects Scottish Widows to assess each investment manager's approach to sustainable investment (including engagement) prior to its inclusion within the Default Option and to monitor each manager's approach to sustainable investment (including engagement) on a regular basis.

9.9. In selecting and reviewing its investment managers to the DC Section, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives, they will use another investment manager for the mandate.

9.10. The Trustee carries out a strategy review at least every 3 years to assess the continuing relevance of the Default Option and self-select funds in the context of the DC Section and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to sustainable investment and ESG on an annual basis using information provided by Scottish Widows. This monitoring considers the performance of the DC Section's investment managers over medium and long-term time periods consistent with the Trustee's investment aims, beliefs and constraints.

9.11. The Trustee expects Scottish Widows to report regularly on the costs incurred in managing the DC Section's assets and this includes the costs associated with portfolio turnover. The Trustee formally reviews the reported portfolio turnover costs, at least annually, as part of the preparation of the Chair's Annual Statement.

9.12. For the open-ended pooled funds in which the DC Section invests, there are no predetermined terms of agreement with the investment managers. The suitability of the DC Section's investments and their ongoing alignment with the Trustee's investment aims, beliefs and constraints 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 specific funds used, is assessed.

9.13. The Trustee will consider ESG and stewardship using information from their advisers, investment managers and industry specialist bodies and in doing so, consider whether to review its own policy and procedures. The Trustee will report on ESG and stewardship at least annually, making this available to members.

Appendix 1 - DC Section Statement of Investment Principles (Cont)

9.14. The DC Section's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

10. Monitoring

10.1. Investment Performance: The Trustee reviews the performance of each investment option offered through the DC Section against the stated performance objective and, in doing this, the Trustee receives a performance monitoring report at least quarterly. This monitoring takes into account both short-term and long-term performance. The investment manager's overall suitability for each mandate will be monitored as frequently as the Trustee considers appropriate in light of both its performance and other prevailing circumstances.

10.2. Objectives: The Trustee monitors the suitability of the objectives for the DC Section (as detailed in the Appendix) and performance (net of fees) against these objectives at least every three years and also when there is any significant change in the investment policy, underlying economic conditions or the profile of the members.

10.3. Investment Choices: The Trustee monitors the ongoing appropriateness of the investment choices offered on a periodic basis.

10.4. Engagement and Stewardship: the Trustee monitors the engagement and stewardship activities undertaken by the investment managers on an annual basis using information provided by the DC Section's bundled provider, Scottish Widows.

11. Agreement

11.1. This Statement was agreed by the Trustee, and replaces any previous statements. Copies of this Statement and any subsequent amendments will be made available to the employer, the investment manager, the actuary and the Scheme auditor upon request.

Signed:...[redacted].... Date:..25/9/20

On behalf of the Trustee of The University of Warwick Pension Scheme

The University of Warwick Pension Scheme | Statement of Investment Principles | August 2020

Appendix 1 - DC Section Statement of Investment Principles (Cont)

Appendix 1 Note on investment policy in relation to the current Statement of Investment Principles dated August 2020

1. The balance between different kinds of investment

The Trustee's main investment objectives are:

- to provide a suitable default investment option that is likely to be suitable for a typical member of the DC Section.
- to offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different investment needs and objectives.
- seek to achieve good member outcomes net of fees and subject to acceptable levels of risk.

The Trustee is responsible for the design of the default investment option and for choosing which investment options to make available to members. Members are responsible for their own choice of investment options (including where the default investment option is selected for them because they have not selected other funds).

The Trustee has made available a range of funds to suit the individual needs of the DC Section's members. For example, a range of funds with greater equity bias is available for those members willing to accept a greater level of volatility in pursuit of higher expected retirement savings. Funds that hold greater degrees of investment in bonds or cash are offered for those members who are less comfortable with the likely volatility of the equity funds.

Alternatively, the Trustee has made available a range of lifestyle arrangements, whereby a member's assets are automatically invested in line with a pre-determined strategy that changes as the member gets closer to accessing their retirement savings. Emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term inflation-protected growth whilst the member is a long way off accessing their retirement savings, switching progressively to lower risk assets over the years preceding the member's target retirement date so as to protect the purchasing power of the retirement savings.

The lifestyle arrangements are constructed from some of the funds mentioned above that are offered to members wanting to manage their own asset allocation decisions.

2. Default option

The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a single investment option that will be suitable for each individual member. However, having analysed the membership profile of the DC Section,

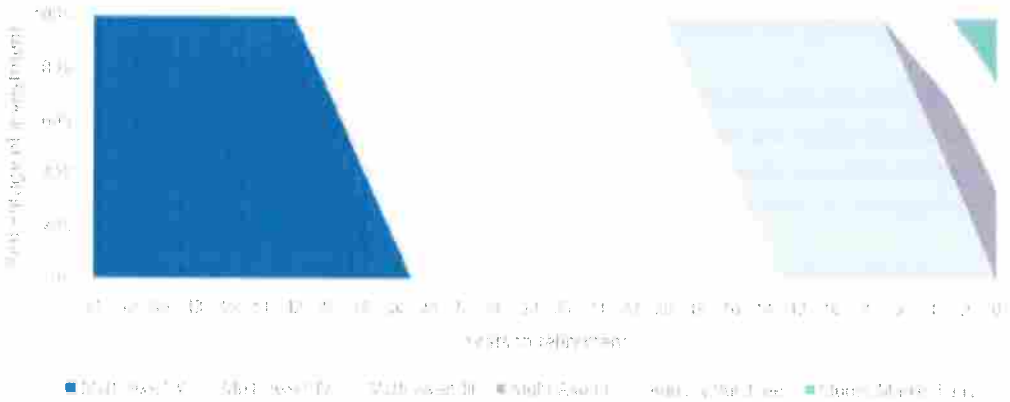
Appendix 1 - DC Section Statement of Investment Principles (Cont)

the Trustee decided that the lifestyle arrangement set out below represents a suitable default investment option for the majority of members who do not make a choice about how their contributions (and those made on their behalf by the employer) are invested. The aims, objectives and policies relating to the default option are intended to ensure that assets are invested in the best interests of relevant members and their beneficiaries.

The default option is called the Passive Interim Lifestyle Strategy and is a governed solution which is designed and implemented by Scottish Widows. It invests in a range of risk targeted multi-asset funds depending upon how far each member is away from their Normal Retirement Age (TRA).

- When a member is more than 42 years from NRA, the Passive Interim Lifestyle Strategy will invest wholly in the Multi-Asset V Fund.
- From 42 years up to 7 years before each members NRA, the Passive Interim Lifestyle Strategy looks to reduce the level of investment risk by automatically and gradually switching out of the Multi-Asset V Fund. It initially switches into the Multi-Asset IV Fund followed by the Multi-Asset III Fund and then the Multi-Asset II Fund. At 7 years from NRA it will invest wholly in the Multi-Asset II Fund.
- Over the final 7 years to NRA, the Passive Interim Lifestyle Strategy will gradually switch a proportion of each member's investments into the Annuity Purchase Fund and the Money Market Fund. At NRA it will target a portfolio that invests 35% in the Multi-Asset II Fund, 40% in the Annuity Purchase Fund and 25% in the Money Market Fund.

This process is illustrated in the graph below:



The objective of the Passive Interim Lifestyle Strategy is to grow the value of a member's benefits over the longer term whilst providing less volatility (but a potentially lower return) than investing solely in a portfolio of global equities. In the approach to NRA It is designed to limit the extent to which members' benefits are exposed to large fluctuations in value. It targets a portfolio that looks to provide flexibility at retirement by being broadly appropriate regardless of how each member takes their retirement income (e.g. cash, annuity purchase or drawdown).

Appendix 1 - DC Section Statement of Investment Principles (Cont)

3. Alternative investment options

Acknowledging the challenge of identifying the best solution for different groups of members, the Trustee focuses on the default option. Alongside the default investment option, the Trustee makes available three further lifestyle investment options which have been designed to allow members to target a specific retirement income option. Like the Passive Interim Lifestyle Strategy, these form part of Scottish Widows' range of governed investment solutions so have been designed and implemented by Scottish Widows:

- Passive Flexible Retirement Lifestyle: designed for those members that intend to drawdown income in retirement.
- Passive Immediate Spend Lifestyle: designed for those members that intend to take their retirement fund as cash.
- Passive Securing Lifelong Income Lifestyle: designed for those members that intend to provide retirement income through annuity purchase.

Each of these Lifestyle options holds the same underlying investment funds as the Passive Interim Lifestyle Strategy in the early years of membership. However, in the final 7 years to NRA they are tailored to reflect the target retirement income option.

Members can also self-select individual funds to invest in. These consist of the constituent funds of the lifestyle programmes (referred to above) as well as four further funds, details of which are set out in the section below.

4. Choosing investments

The Trustee has appointed Scottish Widows to carry out the day-to-day investment of the DC Section. As the default option and range of lifestyle strategies are designed and implemented by Scottish Widows, Scottish Widows is responsible for selecting the underlying fund managers. The Trustee selects the fund managers for all other funds offered through the DC Section.

The investment managers to the DC Section are currently BlackRock and Columbia Threadneedle, both of which are authorised and regulated by the Financial Conduct Authority.

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

Investment manager	Fund	Benchmark	Objective
BlackRock	SW Multi-Asset V	SW Passive Multi Asset V Composite Benchmark	Provide capital growth over the long term
	SW Multi-Asset IV	SW Passive Multi Asset IV Composite Benchmark	Provide capital growth over the long term
	SW Multi-Asset III	SW Passive Multi Asset III Composite Benchmark	Provide capital growth over the long term

Appendix 1 - DC Section Statement of Investment Principles (Cont)

Investment manager	Fund	Benchmark	Objective
	SW Multi-Asset II	SW Passive Multi Asset II Composite Benchmark	Provide capital growth over the long term
	SW Multi-Asset I	SW Passive Multi Asset II Composite Benchmark	Provide capital growth over the long term
	SW Passive Annuity Purchase	50% iBoxx Sterling Non-Gilts Index 50% FTSE UK Gilts Over 15 Years Index	Reflect to some degree the changes in the cost of purchasing a level annuity
	UPS Balanced Growth	60% FTSE All-World Developed Ex-UK Index 25% iBoxx Sterling Non-Gilts Over 15 Years Index 15% FTSE All-Share Index	To provide a moderate to higher return over the longer-term
	UPS Equity Growth	80% FTSE All-World Developed ex-UK Index 20% FTSE All-Share Index	To provide a higher return over the longer-term (compared to the other UPS funds available
	UPS Pre-Retirement	67% iBoxx Sterling Non-Gilts Over 15 Years Index 33% FTSE UK Gilts Over 15 Years Index	To provide returns linked to the bond markets that reflect, to some extent, movements in the price of buying an annuity
	UPS Money Market	7 Day Sterling LIBID	To provide a greater degree of capital stability than other assets
Columbia Threadneedle	SW Money Market	N/A	To provide stability of capital and a modest level of return

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

Appendix 1 - DC Section Statement of Investment Principles (Cont)

5. Fee agreements

The annual fee arrangements with the investment managers are summarised below:

Investment option/fund	Fund management charge	Annual management charge	Total expense ratio
Passive Multi- Asset V	0.410%	0.093%	0.503%
Passive Multi- Asset IV	0.410%	0.094%	0.504%
Passive Multi- Asset III	0.420%	0.097%	0.517%
Passive Multi- Asset II	0.420%	0.094%	0.514%
Passive Multi- Asset I	0.410%	0.093%	0.503%
Passive Annuity Purchase CS1	0.410%	0.085%	0.495%
Money Market CS1	0.440%	0.156%	0.596%
UPS Balanced Growth	0.410%	0.086%	0.496%
UPS Equity Growth	0.410%	0.084%	0.494%
UPS Money Market	0.360%	0.140%	0.500%
UPS Pre-Retirement	0.410%	0.087%	0.497%

The Trustee reviews these charges periodically as part of the Value for Member assessments.

6. Additional Voluntary Contributions (AVCs) for the Defined Benefit (DB) Section

The Trustee offers members of the DB Section the ability to accrue additional retirement payments through an AVC policy. This AVC policy is managed by Prudential and all AVC benefits are invested in the Prudential With Profits Fund.

A With Profits Fund is a pooled investment vehicle, which combines the assets of all investors to provide exposure to a range of asset classes. The fund is managed in line with its published Principles and Practices of Financial Management (PPFM) however the provider does have some discretion over how this is achieved.

The value of a With Profit fund is not directly linked to the value of the underlying assets. Instead, returns over the period are smoothed by retaining some profits in periods of higher growth and paying out more during periods of lower profits. This smoothing is achieved through a combination of regular bonuses and final bonuses.

Appendix 1 - DC Section Statement of Investment Principles (Cont)

Regular bonuses are paid annually and represent the amount that the with profit fund manager believes appropriate to be passed on to members. There is usually no guarantee that regular bonuses will paid. Once paid however, they cannot be taken away providing the member keeps their investment in the policy until retirement or death.

Final bonuses (also known as terminal bonuses) may be added when benefits are paid. These are not guaranteed and will depend on a variety of factors including the fund performance over the period, bonuses already paid, expenses etc.

Appendix 2 - DB Section Statement of Investment Principles

The University of Warwick Pension Scheme – DB Section

Statement of Investment Principles

September 2020

Appendix 2 - DB Section Statement of Investment Principles (Cont)

Table of Contents

Appendix 2 - DB Section Statement of Investment Principles (Cont)

Section 1: Introduction

Pensions Acts

1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles pursued by the UPS Pension Trustee Limited (the "Trustee") of The University of Warwick Pension Scheme DB Section ("the Scheme").

1.2 The Trustee has consulted the University of Warwick ("the Employer") on the principles set out in this statement and will consult the Employer on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

1.3 Before drawing up this statement, the Trustee has obtained and considered written advice from the Scheme's DB investment consultants (currently Willis Towers Watson). The Trustee will review this document regularly, at least every three years, and without delay following a significant change in investment policy.

Financial Services and Markets Act 2000

1.4 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for the selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

Scheme details

1.5 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries ("Members").

Appendix 2 - DB Section Statement of Investment Principles (Cont)

Section 2: Division of responsibilities

2.1 The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

2.2 In particular, the Trustee delegates a number of tasks to an Investment Sub Committee ("ISC") as well as a Delegated Chief Investment Officer ("DCIO"), the latter function being carried out by Willis Towers Watson.

Trustee roles and responsibilities

2.3 The Trustee's primary investment role and responsibility is to set the overall strategic investment objectives for the Scheme, including a risk budget, return target, sustainable investment policy, broad strategic asset allocation policy, and broad risk-management framework for the Scheme (taking advice from the ISC and DCIO), and ensuring that these objectives remain appropriate over time.

2.4 The Trustee delegates a number of responsibilities to the ISC and DCIO (as set out below). However, the Trustee reserves the right to make decisions on all such matters subject to informing the ISC and DCIO as soon as practicable after a decision has been taken.

ISC roles and responsibilities

2.5 The ISC's roles and responsibilities include:

- Assisting the Trustee in developing an appropriate overall investment risk budget, return target, sustainable investment policy, broad strategic asset allocation policy, and broad risk-management framework for the Scheme.
- Monitoring the overall progress of the Scheme and the underlying investment risk/return balance relative to the Trustee's strategic objectives and parameters, and reporting to the Trustee on an agreed frequency.
- Monitoring the activity and performance of DCIO for the services provided as set out in DCIO's agreement with the Scheme, and reporting to the Trustee on an agreed frequency.

DCIO roles and responsibilities

2.6 The Trustee has delegated responsibility to the DCIO to implement the Trustee's agreed investment strategy, including making certain decisions about investments (as set out in the Fiduciary Management and Investment Consulting Services Agreement (the Agreement) with effective date of 1 April 2012) in compliance with Sections 34 and 36 of the Pensions Act. In particular, as part of the Agreement, the Trustee sets out (and updates as and when deemed appropriate) specific Investment Guidelines for the DCIO within which to operate. The DCIO considers the Agreement, Investment Guidelines and the Trustee's policies set out within this statement when carrying out its role and responsibilities, which ensures appropriate incentivisation and alignment of decision-making with the Trustee's overall objectives, strategy and policies.

2.7 The DCIO's roles and responsibilities include:

Appendix 2 - DB Section Statement of Investment Principles (Cont)

- Assisting the ISC (and, where appropriate, the Trustee) in the development of an overall investment risk budget, return target, sustainable investment policy, broad strategic asset allocation policy, and broad risk-management framework for the Scheme.
- Within the constraints of the agreed investment guidelines:
  - determining asset allocation
  - liability hedging design and implementation
  - reflecting Environmental, Social and Governance and broader sustainable investment considerations in the portfolio risk management process, including both capital allocation and stewardship/engagement
  - selecting and de-selecting investment managers
  - implementing all asset transitions (including rebalancing).
- Leading and completing negotiations of investment manager agreements, including:
  - agreeing investment and commercial terms
  - obtaining, considering and acting on legal advice as appropriate
  - executing agreements on the Scheme's behalf under a Power of Attorney.

Underlying Investment Managers

2.8 Each underlying investment manager's responsibilities include:

- Discretionary management of the portfolio, including implementation (within agreed guidelines) of changes in the asset mix and selecting securities within each asset class.
- Providing regular statements of the assets they manage.
- The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Scheme.

Global Custodian and Performance Measurer

2.9 The Scheme currently contracts a global custodian, whose responsibilities include:

- Registering the Scheme's investment holdings.
- Providing independent transaction activity and valuation reporting on a monthly basis.
- Providing performance measurement services.

Professional Advisors

2.10 The Trustee currently uses a single firm for both actuarial advice and investment advisory and fiduciary management services as it believes this arrangement has certain advantages for the Scheme, such as common models being used for investment and funding purposes as well as ease of communication

Appendix 2 - DB Section Statement of Investment Principles (Cont)

between lead advisers, both of which ultimately facilitate joined up funding and investment journey planning.

Scheme Actuary

2.11 The Scheme Actuary's responsibilities include:

- Performing the triennial (or more frequently, as required) valuations of the Scheme and advising on the appropriate contribution levels for the future.
- Liaising with the investment consultant on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.

Appendix 2 - DB Section Statement of Investment Principles (Cont)

Section 3: Long-term objectives and investment strategy

Scheme objectives

3.1 The long-term objective of the Trustee is for the Scheme to be fully funded on a gilt + 0.25% basis (which is taken to be the same basis as that underlying the technical provisions but using a gilts + 0.25% discount rate to assess the liabilities) by the year 2029.

3.2 The Trustee will review this performance objective regularly and amend as appropriate.

Investment strategy

3.3 The Trustee takes advice to determine an appropriate investment strategy for the Scheme consistent with the above long-term funding objective. This includes a risk budget and return target and a range of investment parameters, which are set out in a set of Investment Guidelines. The DCIO then implements the agreed strategy by managing the Scheme's portfolio in line with the agreed Investment Guidelines.

3.4 The investment strategy makes use of:

- a range of instruments that seek to match changes in liability values
- a diversified range of return-seeking assets, including a spectrum from index-tracking to actively managed portfolios
- a range of sustainable investment practices (see below), recognising that this is part of good financial risk management.

3.5 The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Scheme's funding and investment objectives.

3.6 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

Appendix 2 - DB Section Statement of Investment Principles (Cont)

Section 4: Other investment policies

The Trustee also faces other requirements relating to investment, be they legislative or considered best practice.

Choosing investments

4.1 The Trustee has delegated responsibility for the selection and deselection of investments, and the ongoing management of relationships with asset managers to the DCIO within Investment Guidelines set by the Trustee. The DCIO will ensure that, in aggregate, the portfolio is consistent with the policies set out in this statement and that the investment objectives and guidelines of any individual manager/mandate are also consistent with those policies relevant to the mandate in question. The Trustee considers the DCIO's performance in carrying out these responsibilities as part of its ongoing oversight of the DCIO.

4.2 The Trustee expects the DCIO to appoint investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the Trustee expects the DCIO to focus on longer-term outcomes, commensurate with the Trustee's position as a long term investor. Consistent with this view, the Trustee does not expect that the DCIO would terminate a manager's appointment based purely on short term performance but recognises that a manager may be terminated within a short timeframe due to other factors such as a significant change in business structure or the investment team. The Trustee adopts the same long term focus as part of its ongoing oversight of the DCIO.

4.3 For most of the Scheme's investments, the Trustee expects the DCIO to appoint managers with a medium to long time horizon, consistent with the Scheme. In particular areas such as equity and credit, the Trustee expects the DCIO to work with managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustee notes that the DCIO may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

4.4 The Trustee expects the DCIO to assess the alignment of the Scheme's underlying managers' approach to sustainable investment (including engagement) with its own before making an investment on the Scheme's behalf. In addition, the Trustee expects the DCIO to review the managers' approach to sustainable investment (including engagement) on a regular basis and engage with the manager to encourage further alignment as appropriate. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and the managers' engagement activities. If, following engagement, the DCIO considers that the degree of alignment remains unsatisfactory, the Trustee expects the DCIO to deselect the manager.

4.5 The Trustee expects the DCIO to consider the fee structures of asset managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the appointment of an asset manager and on an ongoing basis. Asset managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustee expects the DCIO to review and report on the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee expects the DCIO to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Appendix 2 - DB Section Statement of Investment Principles (Cont)

Responsible investing, stewardship and sustainability

4.6 At the time of writing the Trustee is at a relatively early stage in developing its policy with regards to the new regulatory requirements on responsible investing, stewardship and sustainability. As developments occur, the Trustee will review its policy in this area and amend it from time to time.

4.7 The Trustee believes long-term sustainability to be an important and relevant issue to consider throughout the investment process. In particular the Trustee recognises that:

- an investment's financial success can be influenced by a wide range of factors including environmental, social and governance (ESG) issues and stewardship
- ESG considerations and stewardship are therefore important aspects of responsible financial risk management in order to protect the value of investments and should improve long-term member financial outcomes.

4.8 Where ESG factors, stewardship and broader sustainable investment considerations are deemed to be financially material, the Trustee believes that they should be taken into account within the investment decision-making process. The Trustee may consider non-financial matters as part of its overall decision making and setting of investment strategy including as and when views are proactively raised by members, and will continue to monitor and review its approach in this area

4.9 The Trustee will consider ESG and stewardship using information from their advisers, investment managers and industry specialist bodies and in doing so, consider whether to review its own policy and procedures. The Trustee will report on ESG and stewardship at least annually, making this available to members.

4.10 The Trustee seeks to apply the principles outlined above via the selection and monitoring of the DCIO (and its associated approach to ESG and broader sustainability issues, as set out below). In particular, the Trustee has delegated:

- investment manager selection, de-selection and monitoring to the DCIO
- the selection, retention and realisation of investments to the DCIO and in turn to the Scheme's investment managers (in accordance with the Financial Services and Markets Act 2000, the selection of specific investments is delegated to investment managers)
- responsibility for the exercising of rights (including voting rights) attaching to investments to the Scheme's investment managers.

4.11 The DCIO:

- has a dedicated Sustainable Investment resource and a network of subject matter experts
- considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures, which the DCIO takes into account in the assessment
- has appointed Hermes EOS to undertake public policy engagement on its behalf

Appendix 2 - DB Section Statement of Investment Principles (Cont)

- engages with underlying managers where appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings
- fully embeds the consideration of ESG issues in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis:
  - whilst noting there may be limitations for each investment manager and asset strategy, the DCIO expects investment managers to have ESG processes that align with the investment risk and return characteristics of the strategy
  - where an investment manager's processes are deemed insufficient by the DCIO and the investment manager does not take steps to improve their approach, the investment manager's position in the portfolio may be reviewed and/or a decision may be taken not to proceed with an investment
  - the DCIO encourages and expects the Scheme's investment managers to sign up to local or other applicable Stewardship Codes, in keeping with good practice, subject to the extent of materiality for certain asset classes
- is itself a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

Liquidity and realisation of investments

4.12 The Scheme's administrator (currently Barnet Waddingham LLP) assesses the likely benefit outgo on a regular basis and ensures that sufficient cash reserves are available.

4.13 The Trustee's policy is that there should be sufficient secure investments in liquid or readily-realisable assets to meet cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Scheme's overall investment policy.

Appendix 2 - DB Section Statement of Investment Principles (Cont)

Section 5: Risk management

5.1 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:

- Solvency risk and mismatching risk
  - are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities under current and alternative investment policies
  - are managed through assessing the progress of the actual growth of the assets relative to liabilities under current and alternative investment policies.
- Manager risk
  - is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy
  - is managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the manager's investment process.
- Liquidity risk
  - is measured by the level of cashflow required by the Scheme over a specified period
  - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- Currency risk
  - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.
  - is managed by reducing the translation risk of investing overseas by hedging a proportion of the overseas investments' currency translation risk for those overseas currencies that can be hedged efficiently.
- Custodial risk
  - is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody
  - is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.
- Political risk
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

Appendix 2 - DB Section Statement of Investment Principles (Cont)

- Sponsor risk
  - is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit
  - is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.

5.2 The Trustee continues to monitor these risks alongside the DCIO.

[redacted] 25/9/20

Signed for and on behalf of
UPS Pension Trustee Limited as Trustee of the Scheme
September 2020