The Federated Pension Scheme for Imperial College

Statement of Investment Principles – September 2020

Introduction

The Trustees of the Federated Pension Scheme for Imperial College (the “Trustees” and the “Scheme”, respectively), have drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to confirm the investment principles that govern decisions about the Scheme’s investments. In preparing this Statement the Trustees have consulted Imperial College London (the “Employer”) on the Trustees’ investment principles.

Governance

The Trustees make all major strategic decisions including, but not limited to, the Scheme’s asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

• Identify appropriate investment objectives
• Agree the level of risk consistent with meeting the objectives and the Employer’s covenant
• Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustees take proper advice. The Trustees’ investment consultants, Capita Employee Solutions, are qualified by their ability in and practical experience of financial matters and have the appropriate knowledge and experience to provide such advice.

Investment Objectives

The Trustees are required to invest the Scheme’s assets in the best interest of the members, and their main objectives with regard to investment policy are:

• To achieve, over the long term, an investment return on the Scheme’s assets which is consistent with the assumptions made by the Trustees in determining the funding of the Scheme;
• To ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and
• To consider the interests of the Employer in relation to the size and volatility of the Employer’s contribution requirements.

Investment Mandates

The Trustees have selected Legal & General Investment Management (“LGIM”) as the appointed Investment Manager (“the Investment Manager”) to manage the assets of the Scheme. The Investment Manager is regulated under the Financial Services and Markets Act 2000.
The Trustees have a rolling contract with their Investment Manager.

The Trustees monitor the performance of their Investment Manager on a regular basis.

The Trustees have set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

Investment Manager Remuneration

The Trustees monitor the remuneration and incentives that are paid to their Investment Manager, and how it rewards key staff who manage client funds.

As part of the monitoring that the Trustees carry out on a regular basis, they ensure that this policy is in line with their investment strategy.

Investment Manager Philosophy and Engagement

The Trustees have elected to invest predominantly in passive government and corporate bond funds and not in equities, and as such this limits the ability for the Trustees to monitor the Investment Manager’s process for assessing the businesses it invests in, and whether business performance over the medium to long-term involves a holistic look beyond mainly accountancy measures. The Trustees consider if the Investment Manager is incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments being made. To the extent that they can, the Trustees are conscious of whether the Investment Manager is incentivised by the agreement with the Trustees to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustees will monitor costs of buying, selling, lending and borrowing investments and they will look to monitor the costs breakdown annually, as long as the Investment Manager provides these costs using the Cost Transparency Initiative template. The Trustees will also ensure that, where appropriate, their Investment Manager monitors the frequency of transactions and portfolio turnover. If there are any targets, then the Trustees will monitor compliance with these targets.

Investment Strategy

Given their investment objectives, the Trustees have agreed the strategic asset allocation detailed in the table below – further details are shown in the Appendix. The Trustees believe that the investment risk arising from this asset allocation is consistent with the overall agreed level of risk.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Strategic Asset Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Bonds</td>
<td>15%</td>
</tr>
<tr>
<td>Index-Linked Gilts</td>
<td>61%</td>
</tr>
<tr>
<td><strong>Total Bond Portfolio</strong></td>
<td><strong>76%</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
The Trustees have agreed that, for the time being, cash flow requirements will be met in the first instance by making use of the maximum allowance from LGIM’s Notional Dividend Income Payment (‘NDIP’) facility, which enables investors to draw a regular income from the LGIM funds at the mid-market price.

Cash flow requirements over and above the maximum NDIP allowance will be taken in equal amounts from the bond portfolio and the cash portfolio. Any cash flows for investment or disinvestment will be used by the Scheme’s Investment Manager to rebalance the actual allocation within the bond portfolio towards the strategic asset allocation for the bond portfolio shown in the Appendix. The allocation between the bond portfolio and the cash portfolio will not be rebalanced.

The Trustees will monitor the Scheme’s actual asset allocation at least quarterly and will decide on a course of action. This may involve redirecting cash flows, a switch of assets, or taking no action. The Trustees will take into account advice from the Investment Consultant prior to making any decision.

The Trustees may decide to change this cash flow policy from time-to-time, subject to receiving the necessary investment advice.

**Expected Return**

The Trustees expect the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustees expect the Scheme’s current asset allocation to generate a return (net of expenses), over the long term, of circa 0.2% per annum above a portfolio of long-dated UK Government bonds – which are considered to change in value in a broadly similar way to the Scheme’s liability value. This return is a “best estimate” of future returns that has been arrived at given the Scheme’s current asset allocation and in the light of advice from the Investment Consultant.

The Trustees recognise that, over the short term, actual performance may deviate significantly from this long-term expectation. This “best estimate” is higher than the assumption used for funding purposes for the actuarial valuation of the Scheme’s technical provisions. For funding purposes, a prudent estimate of returns is used, as agreed by the Trustees on the basis of advice from the Scheme Actuary.

**Financially Material Considerations over an Appropriate Time Horizon**

The Trustees believe that their main duty, reflected in their investment objectives, is to protect the financial interests of the Scheme’s members. The Trustees believe that environmental, social and governance (“ESG”) considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments are an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustees form a view of the length of time that they consider is needed for the funding of future benefits by the investments of the Scheme. The Trustees recognise that this is a DB scheme closed to new entrants with an ageing membership. Nevertheless, the Trustees believe that an appropriate time horizon for the Scheme could potentially be over 10 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustees have elected to invest predominantly in pooled, passive government and corporate bond funds and not in equities. Consequently, it is difficult to directly influence the ESG policies of the funds in which they invest. However, the Trustees will consider the manager policies in all future selections and will deepen their understanding of their existing manager policies by reviewing these at least annually. The Trustees will also seek to understand what other options might be available at their manager and in the wider market. In cases where they are dissatisfied with the manager’s approach they will take this into account when reviewing them. They are also keen that their manager is a signatory of the UN Principles of Responsible Investment, which is currently the case.
The Trustees believe that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. However this is less straightforward in bond investments where there are no voting rights. The Trustees are keen that their manager can explain when, and by what practical methods, they monitor and engage with relevant persons about relevant matters in this area, and to the extent that it is feasible the Trustees will report annually on this. The Trustees are also keen that their manager is a signatory of the UK Stewardship Code. This is currently the case.

The Trustees are aware that ESG and stewardship considerations involve an ongoing process of education for themselves and engagement with their investment manager. To that end they dedicate time regularly to the discussion of this topic and intend to review and renew their approach periodically with the help of their investment consultants, where required.

Non-financial matters, including members’ views are not taken into account explicitly.

**Risk Management and Measurement**

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme. The Trustees believe that the investment strategy provides for adequate diversification where appropriate. The Trustees further believe that the current investment strategy is appropriate given the Scheme’s liability profile. The Trustees’ policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme’s assets and its liabilities. The Trustees’ principal focus in setting investment strategy is, therefore, taking into account the nature and duration of the Scheme’s liabilities.

- The Trustees recognise that whilst increasing risk can potentially increase long-term returns, it can also increase the short-term volatility of the Scheme’s funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.

- The Trustees recognise the risks that may arise from the lack of diversification of investments.

- The documents governing the investment manager’s appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

- The Trustees recognise that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, the Trustees believe this risk is outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others. Therefore, the Scheme’s assets are managed through a mixture of index-tracking and active management which may be adjusted from time to time.

- The safe custody of the Scheme’s assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Scheme’s circumstances, the Trustees will review whether the current risk profile remains appropriate.

**Compliance with Myners’ Principles**

In October 2008 the Government published the results of its consultation on revisions to the Myners’ principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance.
The Trustees believe that the Scheme complies with the spirit of the Myners' Principles. There may be some instances of deviation from the published ‘Best Practice Guidance’ on the Principles where the Trustees believe this to be justified.

**Employer-Related Investments**


**Fee Structures**

The Investment Manager is paid a management fee on the basis of assets under management. No additional performance fees are payable.

The Investment Consultant is paid on a time-cost or fixed fee basis, as agreed between the Trustees and the Investment Consultant from time-to-time.

**Review of this Statement**

The Trustees will review this Statement at least once every year and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone whom the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Rosemary Kennell
on behalf of Apex Pension Trustees Limited
as Trustee

24 September 2020
Date

**Signed on behalf of the Trustees of the Federated Pension Scheme for Imperial College**
Appendix – Investment Arrangements

The Trustees have appointed LGIM to manage the assets of the Scheme. The Investment Manager is regulated under the Financial Services and Markets Act 2000. The mandates are set out below:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Investment Manager</th>
<th>Fund Name</th>
<th>Management Style</th>
<th>Initial Strategic Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>LGIM</td>
<td>Investment Grade Corporate Bond Over 15 Year Index Fund</td>
<td>Index-tracking</td>
<td>15%</td>
</tr>
<tr>
<td>Index-Linked Gilts</td>
<td>LGIM</td>
<td>Under 15 Year Index-Linked Gilts Index Fund</td>
<td>Index-tracking</td>
<td>41%</td>
</tr>
<tr>
<td>Index-Linked Gilts</td>
<td>LGIM</td>
<td>Over 5 Year Index-Linked Gilts Index Fund</td>
<td>Index-tracking</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Total Bond Portfolio</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>76%</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>LGIM</td>
<td>LGIM Sterling Liquidity Fund</td>
<td>Active</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The Trustees have agreed that LGIM will regularly monitor the actual asset allocation of the bond portfolio and automatically rebalance back towards the benchmark allocation should the actual asset allocation move outside the control limits, as shown below:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Fund Name</th>
<th>Benchmark Allocation</th>
<th>Control Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>Investment Grade Corporate Bond Over 15 Year Index Fund</td>
<td>20%</td>
<td>+/- 2%</td>
</tr>
<tr>
<td>Index-Linked Gilts</td>
<td>Under 15 Year Index-Linked Gilts Index Fund</td>
<td>54%</td>
<td>+/- 4%</td>
</tr>
<tr>
<td>Index-Linked Gilts</td>
<td>Over 5 Year Index-Linked Gilts Index Fund</td>
<td>26%</td>
<td>+/- 2%</td>
</tr>
<tr>
<td><strong>Total Bond Portfolio</strong></td>
<td></td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>