UCL (Former Medical Schools) Pension Scheme

Statement of Investment Principles – December 2023

1. Introduction

This Statement sets out the principles that govern decisions made by the Trustee of the UCL (Former Medical Schools) Pension Scheme ("the Trustee") regarding the investment of assets of the UCL (Former Medical Schools) Pension Scheme ("the Scheme"). The Trustee will refer to this Statement when making investment decisions, to ensure that they are consistent with these principles.

2. Legislative Requirements

This Statement is designed to meet the requirements of Section 35 of the Pensions Act 1995 as subsequently amended by the Pensions Act 2004 and the Occupational Pension Scheme (Investment) Regulations 2005.

The Occupational Pension Schemes (Investment) Regulations 2005 require all investments to be considered by the Trustee against the following:

- To be in the best interests of members and beneficiaries;
- To ensure security, quality, liquidity and profitability;
- To be appropriate to the nature and duration of the liabilities;
- To be comprised predominantly of investments admitted to trading on regulated markets;
- To be properly diversified; and
- To meet the appropriate requirements in relation to the use of derivatives.

In preparing this document, the Trustee consulted with University College London (the "Employer") and will consult further prior to revising this document in future.

The Trustee's investment powers are set out within the Scheme's Trust Deed and Rules and relevant legislation. If necessary, the Trustee will take legal advice regarding the interpretation of these powers. It is noted that according to the law the Trustee has ultimate power and responsibility for the Scheme's investment arrangements. The Trustee does not expect to revise this Statement frequently because it covers broad principles, but it will be reviewed at least once every three years.

Section 36(3) of the Pension Act 1996 (as amended) requires that where any decision about investments constitutes regulated investment business under the Financial Services and Markets Act 2000 ("FSMA") the delegate is appropriately authorised under the FSMA. In accordance with the FSMA, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investment so an appointed Investment

Manager(s), which may include an insurance company or companies. The Investment Manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

3. Governance of the Scheme

The Scheme is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the investment powers of the Trustee. The investment powers do not conflict with this Statement.

Although the Trustee consults with the Employer, the ultimate responsibility for deciding the Scheme's investment policy lies solely with the Trustee. The main areas of investment responsibility include:

- Determination of the strategic asset allocation;
- Determination of the portfolio structure;
- Selection and appointment of external investment managers; and
- Ongoing monitoring and evaluation of the investment arrangements.

The Trustee is satisfied that there is sufficient access to expertise, information and resources to carry out the Trustee role effectively.

3.1. Liabilities

The value of the Scheme's ongoing liabilities is sensitive to various demographic and financial factors. The principal financial factors which are relevant to the Scheme's investment policy are:

- The rate of the return on assets
- Price inflation for deferred members and pensioners
- Long-term interest rates.

The value of the Scheme's ongoing liabilities for the purpose of testing solvency is sensitive to each of these factors.

3.2. Cash Flow

A significant proportion of the benefits payable by the Scheme are now matched by an irrevocable bulk annuity insurance policy provided by Pension Insurance Corporation Limited ("PIC").

There is a small balance in investments with Mercer to meet some residual member benefits, after payments in respect of Scheme running costs and the payment of members' benefits that are not covered by the PIC policy. Investments are realised to meet costs on those occasions where such costs arise and member views are not currently taken into account when deciding where assets should be redeemed to cover them.

A further tranche of liabilities is also expected to be transferred to PIC in due course under the existing bulk annuity policy, whereupon an additional insurance premium will become payable to PIC.

4. Objectives

The Trustee aims to ensure that obligations to the beneficiaries both in the short and long term can be met.

In addition, the Trustee has the following specific objectives regarding the manner in which this primary objective is to be achieved, which are ranked in order of priority:

- To meet the outstanding liabilities as they fall due.
- To minimise the long term cost of providing the benefits.
- To minimise the likelihood of unacceptable increases in the contribution rate.
- To maintain a funding level on an ongoing basis of not less than 100%.

The Trustee recognises that the Employer has a legitimate interest in these objectives and has consulted the Employer accordingly. It is also recognised that the above objectives may conflict and that prioritising is required if the primary objective is to be achieved in the desired manner.

4.1. Risk

The Trustee regards ‘risk’ as the likelihood of failing to achieve the objectives set out above and has taken measures which are set out in this Statement to minimise this risk as far as possible.

The Trustee recognises the following sources of risk as relevant to its situation in relation to investment:

- **Default risk:** The principal risk to which the Scheme is exposed is that PIC may default on its obligations under the insurance policy. PIC specialises in UK bulk annuity life insurance business and, being a UK insurance company, is authorised by the Prudential Regulation Authority (“PRA”) and regulated by both the PRA and the Financial Conduct Authority (“FCA”). The PRA requires PIC to maintain adequate financial strength at all times to ensure that it can meet its obligations to its policyholders. The Financial Services Compensation Scheme, which is a statutory body, also exists to provide an additional layer of security to policyholders of UK authorised and regulated insurance companies, in the event that they are unable to meet their obligations.

- **Lack of diversification:** The Trustee recognises that a decision to purchase a bulk annuity policy with a single provider represents a concentration of risk. However, notwithstanding the concentration of default risk that results from this lack of diversification, and which is recognised separately above, the policy fully matches the benefits insured under it. Additionally, there is a risk arising from investing the remaining assets in bonds (namely gilts and credit), although the Trustee considers that this asset class will provide a broad match for the Scheme’s outstanding liabilities, and therefore no other asset classes are required.

- **Illiquidity:** The Trustee does not expect to be able to obtain cash from the bulk annuity policy other than to provide to members' promised benefits as agreed with PIC.
- **Mismatch:** The Trustee understands that there is a risk of a mismatch between a change in the value of the liabilities not covered by the policy and a change in the value of the assets invested with Mercer.
- **Regulatory:** The Trustee recognises that there is a risk relating to regulatory changes (e.g. in respect of climate change), which could be compounded by political risk, that may impact the value of assets invested with Mercer

Further, the Trustee is also required to provide narrative disclosures on credit and market risks (namely currency, interest rate and other price risk) rising from its investment arrangements in the Trustee Report and Accounts.

5. Investment Management Structure

The Trustee has entered into an insurance contract with PIC to cover payments to be made to the majority of beneficiaries. As a result, all of the Scheme assets are represented by this contract, with the exception of:

- Assets invested with Mercer.
- Cash held in a Trustee bank account.
- Investment of money purchase Additional Voluntary Contributions ("AVCs").

5.1. Insurance policy

The principal asset of the Scheme was an insurance policy written by PIC, a UK insurance company authorised by the PRA and regulated by the PRA and the FCA, but due to a partial wind up of the Scheme, these policies have been transferred into member's own names.

The Trustee selected PIC as its insurance provider having obtained and considered appropriate regulated investment advice from Mercer. The advice received and arrangements implemented were, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

5.2. Assets with Mercer

The Trustee previously discharged part of its financial obligations to the Scheme members by means of a bulk annuity policy purchased from the Aegon group of companies and also in virtue of a transfer of business from the Royal National Pension Fund for Nurses to Liverpool Victoria Friendly Society Limited. The corresponding annuity policies are now held by the individual members concerned and are no longer assets of the Scheme. However, these annuity policies only achieved a partial discharge in respect of the overall Scheme entitlements for the members concerned. Consequently, the Scheme continues to have liabilities to members in respect of these residual uninsured benefits.

The Trustee intends to undergo an exercise, in accordance with Section 67 of the Pensions Act 1995, to convert some of these residual benefits to a less complex form that is then capable of being insured under a bulk annuity policy with PIC, or otherwise settled by means of winding up lump sum payments. This process is ongoing.

In the interim, assets backing the uninsured liabilities are currently invested in the following Mercer Funds:

- Mercer UK Long Gilt Fund
- Mercer UK Credit Fund*

* The Mercer UK Credit Fund is structured as a single-manager vehicle, which aims to provide institutional investors with a diversified portfolio of UK investment grade corporate bonds. The fund is an actively managed fund which also seeks to promote environmental and social characteristics within the meaning of Article 8 of the Sustainable Finance Disclosure Regulation.

There is also a small holding in the MGI UK Cash Fund.

Asset Classes

The Trustee has chosen to invest solely in UK gilts and credit, alongside a small cash allocation as it is expected that this asset class will provide a better match to the outstanding liabilities than cash. There has not been any detailed asset/liability modelling.

Active Management

The Trustee believes that the predominant use of active (rather than passive) management in the management of credit will increase the likelihood that the Scheme will meet its objectives.

Manager Diversification

The Trustee uses a structure which does not expose the Scheme to too great a degree of manager specific risk and is of the view that the current investment manager arrangements represent a satisfactory degree of diversification.

Custody

The Scheme's investment manager has appointed a custodian (State Street Custodial Services (Ireland) Limited) who provides full custodial services.

6. Review and Control of the Mercer Funds

6.1. *Aligning appointment with investment strategy*

Ahead of investing, the Trustee undertakes due diligence[1] on the funds used. Should Mercer make changes to any of the funds , the Trustee will assess the impact and (where no longer aligned) consider what action to take.

The Trustee only invests in pooled investment vehicles. The Trustee therefore accepts it cannot specify the risk profile and return targets but the pooled funds chosen have characteristics that align with the overall investment strategy for the Scheme.

6.2. *Incentivising medium to long term performance*

At its meetings, the Trustee considers and discusses performance and other investment related matters (including integration of ESG and climate change into the investment process and voting and engagement activities). As part of this, the Trustee will challenge decisions that appear out of line with the Scheme's stated objectives and/or policies.

The Trustee considers the method of remunerating the underlying investment managers to be consistent with incentivising them to make decisions based on assessments of medium to long term financial and non-financial performance of the issuer of debt. . By encouraging medium to longer term view, it will in turn encourage the investment managers to engage with issuers of debt in order to improve their performance in the medium to long-term.

The continued use of the current funds is based on the success of the funds in delivering the mandate for which they are appointed over the long term. Consistent periods of underperformance could lead to the funds being terminated.

6.3. *Evaluating investment manager performance*

The Trustee reviews the performance of the funds r on a regular basis versus agreed benchmarks and targets, over multiple time periods, with an emphasis on the long-term.

The Trustee takes a long-term view when assessing whether the funds should be replaced, and such decisions would not be made solely based on short-term performance concerns. Instead, changes would be driven by a number of factors that may lead to significant reduction in the Trustees' confidence that the funds are able to perform in line with the stated objective of the strategy over the long term.

The Managers are remunerated by way of a fee calculated as a percentage of assets under management. The Trustee is also happy to consider paying a performance related fee where it believes it makes sense to do so.

[1] Which includes but not limited to: the underlying assets held and how they will allocate between them; risks associated with the underlying mix of assets and the steps the Manager takes to mitigate them; expected return targeted by the Managers and details around realisation of the investment; and impact of financial and non-financial factors, including but not limited to ESG factors and climate change, on the investment over the long term.

6.4. *Portfolio turnover costs*

Portfolio turnover costs refer to those incurred due to the buying, selling, lending or borrowing of investments.

The Trustee receives MiFID II reporting from Mercer each quarter, which reports performance net of turnover costs. This position is kept under review.

6.5. *Duration of investment arrangements*

As the Trustee is a long-term investor, it does not expect to make changes to the investment arrangements on a frequent basis.

The Scheme only holds open-ended vehicles and expects to retain them unless:

– There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

– Mercer has been reviewed and the Trustee has decided to terminate the Mercer Funds.

7. Corporate Governance

For those assets not covered by insurance policies, corporate governance activities have been delegated to the Mercer funds.

- As a manager of managers, Mercer delegates the management of the assets of the funds to the underlying investment managers but retains oversight and monitors that the strategy continues to adhere to its published investment approach. The investment approach is underpinned by a number of guiding principles, which Mercer believe is likely to create and preserve long-term investment capital.

8. Socially Responsible Investment

The Trustee believes that environmental, social and governance (“ESG”) factors may have a material impact on investment risk levels and return outcomes in the future. It also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee expects its appointed investment manager to take account of ESG factors insofar as they believe such considerations will be integrated into their investment processes to aid performance or reduce risk. As the Scheme invests in pooled vehicles, the Trustee accepts that the assets are subject to the investment managers’ own ESG policies but it will review Mercer’s policy periodically.

Again, as only pooled vehicles are held, the Scheme’s voting rights are exercised, and engagement activity undertaken, by its investment manager in accordance with their own policies. As the Scheme does not currently hold any assets with voting rights, the Trustee does not monitor the actions of the investment managers in this area. If the situation were to change, the Trustee would establish a policy for monitoring the voting and engagement activity of its investment managers.

9. Investment Manager Fees

The Trustee paid an insurance premium to PIC to secure insurance cover under the bulk annuity policy in respect of a portion of the Scheme's overall liabilities. An additional premium will become payable should any additional tranches of liabilities be transferred to PIC in future. PIC does not ordinarily levy any other charges or costs on the Scheme.

Mercer levies a fee of 0.25% p.a. on the assets invested in the UK Credit Fund and 0.25% on assets invested in the UK Long Gilt. Underlying manager fees are also applicable, and vary according to the size of assets invested in the funds.

Rosemary Kennell
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For and on behalf of Apex Pension Trustees Limited, sole Trustee of the UCL (Former Medical Schools) Pension Scheme

December 2023