University of Exeter Retirement Benefits Scheme
Statement of Investment Principles

1. Background

The Trustee of the Exeter Retirement Benefits Scheme ("the Scheme") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement sets down the investment principles that govern decisions about the Scheme's investments. In preparing this Statement, the Trustee has consulted the principal employer to the Scheme (University of Exeter), to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements, and obtained and considered written professional advice from the Scheme's investment consultants.

The Trustee's investment responsibilities are governed by the Scheme's trust deed and this Statement takes full regard of its provisions. A copy of the Scheme's trust deed is available for inspection on request.

The Statement will be reviewed periodically and at least every three years to ensure that it remains accurate and will be amended more frequently should any changes be made to the Scheme's investment arrangements. The Trustee is committed to maintaining the accuracy of this Statement on an ongoing basis.

2. Investment Strategy

2.1. Investment Objectives

The Trustee's main aim is to invest the Scheme's assets in the best interest of the members and beneficiaries. The Trustee has agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed.

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustee's overriding funding principles for the Scheme are to set the employer contributions at a level so that, allowing for Scheme investment returns, they are sufficient:

- to recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- to ensure that there are always sufficient assets in the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members

The value of liabilities is calculated on the basis agreed by the Trustee, acting on the advice of the Scheme Actuary. The Trustee also considers the Scheme's funding position on the more stringent minimum risk (solvency) basis. These funding positions are monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

2.2. Investment Risk

The Trustee is aware of and pays close attention to a range of risks when investing the assets of the Scheme.

The Trustee believes that the investment strategy provides adequate diversification both within and across different asset classes. The Trustee further believes that the current investment strategy is appropriate given the Scheme's liability profile.

The principal risks facing the Scheme are:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities. The Trustee recognises that whilst taking risk increases potential returns over a long period of time, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities, as well as producing more short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk through asset/liability analysis.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee believes that the investment strategy in place provides an adequately diversified distribution of assets.
- The Trustee recognises that the use of active management involves a risk that the assets do not achieve the expected return. The Trustee has moved from active to passive management of the equity portfolio as part of a staged approach to reducing investment risk.
- The Trustee recognises that there is a degree of currency risk within the Scheme's global equity portfolios. This has been mitigated to an extent by a partial currency hedging strategy to reduce potential volatility of returns due to currency fluctuations.
- 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 Trustee manages the Scheme’s cash flows taking into account the timing of future payments, in order to reduce the probability of a shortfall of liquid assets relative to the Scheme’s immediate liabilities.
- The Trustee has sought to reduce the risk of fraud, poor advice or acts of negligence by ensuring that all advisers and third-party service providers are suitably qualified and experienced.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks have been modelled explicitly during the course of such reviews.

Should there be a material change in the Scheme's circumstances, the Trustee will review to what extent the investment arrangements should be altered; in particular whether the risk profile remains appropriate.

2.3. Investment Policy

The investment policy falls into two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustee, and (2) the day-to-day management of the assets, which has been delegated to a professional investment manager.

2.4. Strategic Management

The investment strategy has been framed after consideration of the Scheme's assets and liabilities. The Trustee Directors formed a working sub-group to review the investment strategy in the light of the decision by the principal employer to close the scheme to all future accrual and taking into account the principal employer's suggestion that investment risk relative to the Scheme liabilities be reduced. The Scheme subsequently closed to all future accrual on 30 November 2016.

Further discussions took place with the principal employer as part of the 2018 actuarial valuation and it was agreed to reduce the level of risk from equities.

The following investment strategy has been approved by the Trustee Board:

- A portfolio composition of 20% passive global equities and 80% bonds, which at the time of implementation was expected to generate a return of broadly Gilts plus 1.0% p.a.;

- Within the equities portfolio, to adopt a 50%/50% (+/-5%) split between a market capitalisation indexation approach, managed relative to the weights of the FTSE All- World Index, and fundamental indexation, managed relative to the FTSE RAFI Developed 1000 Index;
- To hedge broadly 50% of overseas equity currency exposure back to sterling;
- To adopt a strategic benchmark allocation within the bond portfolio that, at the time of implementation, was expected to result in a funded liability ratio hedge of broadly 100%. It is understood that the funded liability hedge ratio will vary over time. The Trustee Directors monitor the funded liability hedge ratio, and discuss this where necessary at Trustee meetings. The strategic allocations within the bonds portfolio (as a percentage of the total portfolio) are set out below:

5 - 15 year corporate bonds	11.73%
Over 15 year fixed interest gilts	8.70%
Over 25 year index-linked gilts	32.00%
Over 5-year index-linked gilts	27.57%

The Trustee has a cash management and rebalancing policy in place that aims to keep the Scheme's investment strategy broadly in line with the target allocations above.

Given the decision of the principal employer to close the Scheme to future accrual and in recognition that this means it will move over time to a position where most members have retired, the long-term investment strategy is expected to evolve to gradually further reduce risk.

2.5. Day-to-day Management of the Assets

The Trustee delegates the day to day management of the Scheme's assets to a professional investment manager. The Trustee has taken steps to satisfy themselves that the manager has the appropriate knowledge and experience for managing the Scheme's investments.

The Trustee has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The Trustee regularly reviews the continuing suitability of the Scheme's investments, including the appointed manager and the balance between active and passive management, which may be adjusted from time to time.

2.6. Investment Returns

Following execution of the strategy as set out in 2.4 above, the Scheme's assets are expected to generate a long-term investment return of around Gilts plus 1.0% p.a.

3. Buying and Selling Investments

The Trustee has responsibility for investing and disinvesting from the Scheme's assets, after taking appropriate written investment advice. The investment manager has responsibility for buying and selling the underlying assets. The day to day activities which the investment manager carries out for the Trustee are governed by the arrangements between them, which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

4. Responsible Investment and Corporate Governance

4.1. Overview

In setting the Scheme’s investment strategy, the Trustee’s primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee considers investment risk to include environmental, social and

governance (ESG) factors and climate change as these risks could negatively impact the Scheme's investments. The Trustee considers this risk by taking advice from its investment adviser when selecting and monitoring managers.

The Trustee uses passive management so the primary objective for each fund manager is to track the relevant benchmark at a minimum cost. This can limit the fund manager's ability to explicitly take into account ESG factors when deciding which individual securities to hold. However, the Trustee expects high standards of stewardship from its fund managers.

4.2. Stewardship – Voting and Engagement

The Trustee uses passive investment strategies, where the fund manager is required to match the portfolio to a specific benchmark index. Whilst the Trustee does not expect the same degree of engagement as an active investment strategy, the Trustee expects the fund manager's Engagement Policy to continue to apply as the Trustee believes that effective stewardship improves companies' financial performance and hence investment returns.

The Trustee expects the Scheme's investment managers to:

- where appropriate, engage with investee companies with the aim to enhance the long-term value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee regularly reviews the continuing suitability of the investment managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

Where the Trustee identifies significant concerns relating to performance, strategy, risks, social and environmental impact, corporate governance, the capital structure or management of conflicts of interest, of a fund manager or other stakeholder; it will consider the methods by which it would monitor and engage with such a fund manager or other stakeholders.

4.3. Member views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of individual Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

4.4. Investment Restrictions

The Trustee uses passive investment strategies and therefore has not set any investment restrictions on the underlying investment managers in relation to particular products or activities, but keeps this position under review and may re-consider this in future.

5. Arrangements with fund managers

The Trustee recognises that arrangements with its fund managers are important to ensure that interests are aligned. The Trustee seeks to ensure that the fund managers are incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

To that end, the Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the fund managers are aligned with the Trustee's policies, subject to the limitations of the passive investment approach.

This includes monitoring the extent to which fund managers:

- where relevant, make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-

term.

The Trustee is supported in this monitoring activity by their investment adviser, where necessary.

The Trustee receives regular reports and verbal updates from the investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assesses the fund managers over the long-term.

The Trustee also receives annual stewardship information on the monitoring and engagement activities carried out by its fund managers, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year. The Trustee recognises that this monitoring activity is important to encourage fund managers to take appropriate steps to enhance the long-term value of assets through engagement activity.

Before appointment of a new fund manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies.

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

Where fund managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the manager where this is deemed necessary.

There is typically no set duration for arrangements with fund managers, although the continued appointment all for fund managers will be reviewed periodically.

6. Costs monitoring

The Trustee is aware of the importance of monitoring its fund managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by the fund managers that can increase the overall cost incurred by the investments, including turnover costs (portfolio turnover costs are defined as the costs incurred as a result of the buying, selling, lending or borrowing of investments).

The Trustee works with its investment adviser and fund managers to understand all of these costs in more detail where required.

6.1. Evaluation of performance and remuneration

The Trustee assesses the performance of its fund managers on a quarterly basis and the remuneration of its fund managers on an annual basis. Where the Trustee's monitoring identifies a lack of consistency between the level of turnover costs and the manager's style and historic trends, the mandate will be reviewed.

7. Compliance with this Statement

The Trustee will monitor compliance against various aspects of this Statement on a regular basis, with the asset allocation being monitored on a quarterly basis and manager performance being reviewed on a quarterly basis.

8. Review of this Statement

The Trustee will review this Statement without delay after any significant change in investment policy or the circumstances of the Scheme or Company and at least every three years. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the

Trustee reasonably believes 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.

ANNA AMES

Trustee Director

ART AMES

Trustee Director

For and on behalf of the Trustee of the University of Exeter Retirement Benefits Scheme

Date: 31 AUGUST 2020