University of Bristol Pension and Assurance Scheme ("the Scheme")

Statement of Investment Principles – September 2020

1. Introduction

The Trustee of the University of Bristol Pension and Assurance 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 associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with the University of Bristol (the "University") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements and, in particular, on the Trustee's objectives.

2. Investment Objective

The Trustee's aim is to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. The investment strategy and asset allocation is designed to achieve an expected return which is sufficient to meet the Scheme's liabilities.

In meeting this objective, the Trustee's further objective is to:

- By means of an agreed combination of investment returns together with deficit contributions from the University, move the Scheme to a position of being fully funded by 2030 on a de-risked funding basis (Gilts + 0.5%).

3. Strategy

The current investment strategy chosen to meet the objective above is set out in detail in the Statement of Investment Arrangements ("SIA").

The Trustee has appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution, to implement and monitor a series of funding level de-risking triggers focussed on developing the Trustee's strategy whereby the level of investment risk reduces as the Scheme's funding level improves. In addition, the Trustee and University have also agreed to adopt a time-based de-risking underpin. In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds"). The Mercer Funds are domiciled in Ireland (for traditional asset classes), and Luxembourg (for private markets assets). The Ireland-domiciled collective investment schemes are managed by a management company (Mercer Global Investments Management Limited ("MGIM"), and the Luxembourg-domiciled funds are managed by Mercer Alternatives (Luxembourg) S.à r.l.. These entities have appointed, respectively, Mercer Global Investments Europe

Limited ("MGIE") and Mercer Alternatives AG ("Mercer AG") as investment managers of the Mercer Funds.

In practice, assets in the Mercer Funds are invested with third party fund managers based in countries such as Ireland, UK and USA. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis.

In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

Details of the Scheme's asset allocation at the time of writing are set out in the table below.

	% of Scheme Assets	Tolerance Range
Growth Assets	63.3%	+/-5%
Matching Assets	36.7%	+/-5%

The Scheme's assets are allocated with the aim of hedging c. 90% of the Scheme's funding level (on a Gilts + 0.5% basis) against movements in interest rates and inflation. As at 30 June 2020, this equated to hedging c. 63% of the Scheme's total liabilities calculated on a Gilts + 0.5% basis. This will be reviewed on an approximately annual basis.

Responsibility for monitoring the Scheme's asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer will review the actual balance between the Growth and Matching portfolios on an ongoing basis. If at any time the actual balance between the Growth and Matching portfolio is deemed to be outside the appropriate tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation. The objectives of the Growth portfolio will be to deliver cash + 4% with 20 - 30% less risk than equities over a cycle.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the target Growth portfolio weight, as defined in the Statement of Investment Arrangements. Responsibility for monitoring the Scheme's asset allocation and undertaking any rebalancing activity when the range restrictions are breached is delegated to Mercer. External holdings (i.e. the current allocation to the LGIM property fund over which Mercer has no delegated authority) will not be part of any automatic rebalancing activity but will be considered as part of the monitoring of the Growth and Matching split.

The Trustee has delegated the allocation of assets within the Growth and Matching portfolios to Mercer.

The planned investment strategy was determined with regards to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile, and the covenant of the University. When choosing the Scheme's planned asset allocation strategy, the Trustee considered written advice from its investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

In addition, the Trustee has also consulted with the University when setting this strategy.

4. Risk

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme's funding level over its anticipated lifetime and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Trustee and its advisers will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- To control risk, the Trustee sets the split between the Scheme's Growth and Matching Portfolios such that the expected return on the portfolio is sufficient to meet the objectives outlined in Section 2. The Trustee has also set a high level of liability hedging to control risk.
- The Trustee recognises that even if the Scheme's assets are invested in the Matching Portfolio, there are practical constraints associated with achieving an exact match of the Scheme's assets and the Scheme's liabilities.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). To help ensure the continuing suitability of the investments, the Trustee has delegated responsibility for the selection, appointment, removal and monitoring of the Scheme's investment managers to Mercer. Mercer provides the Trustee with regular reports regarding the appointed investment managers.

- The failure to spread investment risk ("risk of lack of diversification"). To control this risk, the Trustee has delegated the asset allocation decisions within the Growth and Matching portfolios to Mercer (subject to certain restrictions). Subject to managing the risk arising from a mismatch of assets and liabilities, Mercer aims to ensure the asset allocation policy results in an adequately diversified portfolio. Mercer provides the Trustee with regular monitoring regarding the level of diversification within the portfolio.

- The possibility of failure of the University and the Langford Veterinary Services Limited ("covenant risk"). The Trustee and its advisers monitor this risk on a regular basis and considered this risk when setting the funding and investment strategy, in addition to consulting the University as to the suitability of the proposed strategy.

- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

- Responsibility for the safe custody of the Scheme's assets (excluding any External assets) is delegated to Mercer. Mercer has appointed State Street Bank and Trust Company ("State Street") as custodian of the assets invested in the Mercer pooled funds. Mercer is responsible for keeping the suitability of State Street under ongoing review. Responsibility for the safe custody of any External assets is delegated to the relevant investment manager.

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. Some of these risks may also be modelled explicitly during the course of such reviews.

The Trustee's policy is to monitor, where possible, these risks periodically. The Trustee receives periodic reports showing:

- Actual funding level versus the Scheme specific funding objective.

- Performance versus the Scheme benchmark.

- Performance of individual fund managers versus their respective targets.

- Performance of the Matching Portfolio and associated risk analysis

Should there be a material change in the Scheme's circumstances, the Trustee will advise Mercer, who will review matters and advise on the extent to which the investment arrangements should be altered.

5. Implementation

The Trustee has set the strategic investment strategy (i.e. split between the Growth and Matching Portfolios) based on the level of investment risk and return it wishes to target. As described above, the Trustee has then delegated the implementation of this investment strategy to Mercer. Mercer constructs portfolios of investments that are expected to maximise the return (net of all costs) given the targeted level of risk.

When choosing investments, the Trustee and Mercer are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

ESG, Stewardship and Climate Change

The Trustee believes that environmental, social, and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship are integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, are expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

Member views

Members' views are not taken into account in the selection, retention and realisation of investments.

Investment restrictions

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in the future.

External assets

In addition to the assets delegated to Mercer which are invested in funds managed by Mercer, the Scheme also has "external asset" exposure in the form of the LGIM property fund allocation. It has been agreed that the Scheme's external assets will be managed as follows:

- The value of the external assets will feed into the total asset value that is used for funding level monitoring purposes. However, it will not be included in any automatic trading. For example:
    - The external assets will not be automatically traded when the Scheme hits a de-risking trigger i.e. it won't reduce in line with the overall Growth allocation.

    - The external assets will be included in the monitoring of the overall Growth / Matching Portfolio split, but will not be included in the automatic rebalancing trades should the split drift outside of tolerance.
    - The assets will not be included in the rebalancing process within the Growth portfolio.
- The Trustee would need to sign the relevant documentation if the external assets are to be traded.
- Mercer will, when necessary, provide investment advice on external assets and advise on the overall strategic asset allocation.
- Mercer will advise on whether the external assets should be retained, carry out ongoing monitoring of the assets, and provide advice on any transition which relates to the external assets.

6. Governance

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions itself and delegate others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to take an informed decision. The Trustee has appointed an Investment Committee to make some more specialist investment related decisions.

The Trustee has established the following decision making structure:

Trustee

- Agrees the Scheme's investment objective.
- Agrees the long-term strategy.
- Appoints the investment adviser.
- Monitors investment advisers.
- Sets structures and processes for carrying out the Trustee's role.
- Consults with the University on major investment decisions via the Investment Committee.

Investment Committee

- Make recommendations to the Trustee on:
    - Suitable investment objectives
    - Structure for implementing investment strategy.
    - Selection of investment advisers.
- Monitor the managers of External assets (i.e. LGIM property fund)
- Review the agreed investment strategy approximately annually with Mercer.
- Monitor the investment strategy on a regular basis.
- Ensure that the Trustee is complying with their fiduciary duties in respect of investment issues.
- Carry out additional duties delegated by the Trustee board from time to time.

Fiduciary Manager

- Advise on the long-term asset allocation (i.e. Growth and Matching split)
- Implement all aspects of the Scheme's investment strategy with a diverse range of managers
- Advise on this statement.
- Provide required training.
- Select and regularly review custodian who will have ultimate responsibility for safe custody of assets
- Select, appoint and terminate mandates with fund managers
- Negotiate all contracts with underlying managers
- Monitor all underlying managers
- Monitor funding level triggers and implement changes in line with agreed strategy.

Fund Managers

- Operate within the terms of their written contracts agreed with Mercer
- Select individual investments with regard to their suitability and diversification and in line with the guidelines agreed.

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee has delegated the day-to-day management of assets to Mercer who in turn delegates day-to-day responsibility for the investment of the assets to a range of underlying specialist investment managers. The underlying investment managers have full discretion to buy and sell investments subject to agreed constraints.

The Trustee has taken steps to satisfy itself that Mercer has the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that Mercer are fit to manage the Scheme's investments.

The Trustee regularly reviews the continuing suitability of the Scheme's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers. Mercer is regulated by the Financial Conduct Authority.

Fund managers are remunerated on an ad valorem basis and in some cases a performance basis. In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets, and incur other ad hoc costs. Mercer levies a fee based on the percentage of the value of assets under management.

7. Realisation of Investments

The Trustee, on behalf of the Scheme, holds shares in the Mercer Funds. The investment managers to the Mercer Funds, (including the underlying third party asset managers appointed by MGIE), within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

8. Cash flow and cash flow management

Cash flows, whether positive or negative, are used to move the Scheme's asset allocation and allocation to the individual underlying investment managers back towards the target allocation appropriate at that point in time given the level of de-risking that may have occurred.

9. Trustee policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 3, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, the Scheme's long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, it is Mercer who has the ability to determine the risk profile and return target of specific Mercer Funds, rather than the Trustee. In addition, Mercer has processes in place to manage such Fund characteristics on an ongoing basis. The Trustee expects Mercer to utilise the various Funds, taking account of their risk profiles and return targets, in a manner that is consistent with the Trustee's overall investment strategy, as outlined in section 3. The Trustee receives reporting from Mercer on a quarterly basis, outlining the level of risk inherent within the Scheme's investment strategy. The Trustee has taken steps to satisfy itself that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

To evaluate performance, the Trustee receives and considers investment performance reports produced on a quarterly basis, which present performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustee is invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

With regards to the Scheme's property allocation with LGIM, the Trustee continually reviews the ongoing performance and appropriateness of the mandate, subject to receiving advice from Mercer. Further details on how the LGIM mandate is monitored are set out in Section 5.

Should Mercer or LGIM fail to align their investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets managed by Mercer and LGIM, to seek to renegotiate commercial terms or to terminate each firm's appointment.

Neither Mercer, MGIE or Mercer AG make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE and Mercer AG to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement. Section 5 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE and Mercer AG may be based, at least in part, on their success in meeting expectations.

The Trustee is a long-term investor and not looking to change the Scheme's investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee has appointed an independent third party provider in order to provide additional monitoring of Mercer and the implementation of the Scheme's investment strategy. In addition, the independent third party provider will provide a comparison of Mercer's performance relative to peer group providers and advice relating to the continued appointment of Mercer. Oversight advice is provided on a formal basis through an annual in-depth review and quarterly market developments updates.

The Trustee monitors, and evaluates, the fees it pays for asset management services on an ongoing basis, taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

Mercer AG fees are based on net commitment for the first four years following the final close and, thereafter, by reference to the Net Asset Value of the Mercer Fund.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's and Mercer AG's, as well as the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Scheme's annualised, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

Given the de-risking mandate, rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing.

To the extent that the Trustees have exposure to active management through the delegated portfolio, portfolio turnover is monitored and taken into account by Mercer. Other than in respect of private markets investments where turnover in the Mercer Funds does not usually apply, performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

10. Additional Assets

Under the terms of the trust deed, the Trustee is responsible for the investment of any Additional Voluntary Contributions (“AVCs”) paid by members. Any AVCs are used to provide additional defined benefit pension and are therefore not considered or managed as separate assets but are invested in line with overall Scheme assets.

11. Review of this Statement

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the University over any changes to the SIP.