

<p style="text-align: center;">CAMBRIDGE COLLEGES FEDERATED PENSION SCHEME</p> <p style="text-align: center;">STATEMENT OF INVESTMENT PRINCIPLES</p>
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Introduction

- 1.1 The Pensions Act 1995, as amended by Section 244 of the Pensions Act 2004, requires the Trustee of the Cambridge Colleges' Federated Pension Scheme (the Scheme) to have in place a formal Statement of Investment Principles (the Statement) in respect of the Scheme. This document constitutes that Statement.
- 1.2 In preparing this revised Statement the Trustee has consulted with the constituent Colleges participating in the Scheme and will consult with them in the future when the Statement is revised. However, responsibility for investment matters rests solely with the Trustee.
- 1.3 In preparing the original Statement in March 1997 the Trustee obtained advice from Nicholas Day FIA of CAMRA Investment Consulting Associates Limited and the then Scheme Actuary, Paul Barnes of Paul Barnes Associates Limited (subsequently Barnes & Sherwood Ltd). In preparing this revised Statement the Trustee has obtained advice from Redington Limited and the Scheme Actuary, Robert Sweet of Cartwright Group Ltd (the Cartwright Group acquired Barnes & Sherwood Limited in 2007), and has consulted Schroder Investment Management Limited.
- 1.4 The Scheme's assets are held in Trust by the Trustee. The investment powers of the Trustee are set out in Clauses 9 and 16 of the Definitive Trust Deed and Rules, dated 9 March 2004.
- 1.5 The investment manager and custodians are required to comply with this Statement.
- 1.6 The Trustee will review this Statement from time to time in the light of legislation then in force. Such reviews will be carried out when prudence dictates and, in any event, once every three years following completion of the actuarial valuation of the Scheme. A review will also be carried out following any significant change by the Trustee in the investment principles of the Scheme.

2. Scheme Objectives

In summary, the Scheme's objectives are:

- a) to ensure that sufficient income and investment return is available to meet benefit payments due, after allowing for Scheme contributions from the members and the constituent Colleges;

- b) to minimise the risk of the assets failing to meet the liabilities over the long term.

3. Risk

There are risks to which any investment is exposed. The Trustee has identified certain investment risks:

- i) The risk of a deterioration in the funding level (i.e. the value of the assets expressed as a percentage of the value of the liabilities) of the Scheme;
- ii) The risk that the investment manager, whilst managing the assets, will not achieve the expected rate of investment returns;
- iii) The absolute risk of reduction in the value of assets through negative returns;
- iv) The risk of mismatch between the assets of the Scheme and its liabilities

The Trustee recognises these different types of risk and seeks to minimise them as far as possible by adopting an investment approach which takes account of the Scheme's liabilities and the regular monitoring of the performance of the fund manager, whilst ensuring that the overall asset allocation of the portfolio is adequately diversified. These risks are closely managed and monitored using a Pension Risk Management Framework (PRMF), which outlines the funding objectives and risk constraints set by the Trustee.

The Trustee sets a risk budget for the Scheme using Funding Ratio-at-Risk as a measure of risk, where the Scheme's investment strategy should not risk the deficit increasing by more than that set in the budget. Within this risk budget, the Trustee seeks to diversify risks across a range of exposures, and to focus on risks that they view as well-positioned to outperform the liabilities. The PRMF is reviewed and monitored by the Investment Committee quarterly.

4. Investment Strategy

Investment strategy is the long-term allocation between asset classes. The Scheme's investment strategy is

- i) to mitigate the volatility of the Scheme's funding position by hedging the interest rate risk and the inflation risk of the Scheme's liabilities. The Scheme targets a level of hedging equal to the Statutory Funding Objective ("SFO") funding level less 10%. The Scheme implements this hedging principally through investment in Liability Driven Investment ("LDI") pooled funds. This has the effect of increasing the sensitivity of the Scheme's assets to changes in interest rates and inflation so that the changes in the value of the asset portfolio match more closely the changes in liability values caused by changes in interest rates and inflation.
- ii) to seek to improve the funding level of the Scheme over time by investing a proportion of the assets in a diversified portfolio of growth assets.

In adopting this Investment Strategy the Trustee had regard to:-

- a) the need to hold investments of appropriate types, bearing in mind the nature of the liabilities and cash flow requirements;

- b) the financial position of the Scheme and the high degree of credit worthiness of the member colleges;
- c) the need to balance the level of risk required to allow the member colleges to continue to sponsor the Scheme and the risk of a significant deterioration in the funding level;
- d) any investment restrictions contained in the Scheme's Trust Deed and Rules;
- e) the need to diversify investments by asset class and by individual investments so as to limit the investment and other risks associated with excess concentration of investments.

The Trustee considered the long-term performance characteristics of a wide range of asset classes in terms of their expected returns in different economic circumstances and the variability of those returns both in real and monetary terms.

The Trustee has an objective to restore the Scheme's funding level to 100% on the long term funding assumptions agreed by the Trustee and the Actuary for the purposes of the actuarial valuation of the Scheme through a combination of investment returns and contribution rates. The assumptions used to determine the funding level are agreed with the Scheme Actuary taking into account then current legislation. The Trustee recognises that, over the short-term, they need to consider the implications on recommended contribution rates of targeting this objective.

The Trustee has delegated day-to-day investment management of the majority of the Scheme's assets to Schroder Investment Management Limited. The terms of the delegation are set out in an Investment Management Agreement dated 19 May 2005, the Matching Plus Investment Management Agreement dated 10 February 2010, the Execution Only Agreement dated 1 May 2014 plus any documents amending the terms of these documents. The Investment Management Agreement, the Matching Plus IMA and the Execution Only Agreement govern respectively the relationship between the trustee and Schroders in respect of the assets as attached in the Appendix.

5. Custody

The Trustee has appointed J P Morgan as custodian. The terms of this appointment are set out in an agreement dated 17 July 2006.

6. Investment Performance Benchmark

The performance of the Portfolio will be judged against the customised benchmark and the relative trajectory of expected returns and liabilities. The performance of individual asset classes will be judged against appropriate indices.

7. Expected Returns on the Investments

Over the long term, the fund seeks to achieve a return at least in line with the required return to reach the full funding objective set by the Trustee. Expected investment returns are monitored against the required expected returns on a quarterly basis with the Pension Risk Management Framework. The expected return is based on the Trustee's investment consultants, Redington Limited, expected returns for the underlying asset classes.

8. The Realisation of Investments

The majority of the pooled funds held by the Scheme have daily dealing dates and thus may be realised quickly if required. The Trustee recognises that certain assets such as property investments and private equity are relatively illiquid. The level of liquidity within the Scheme is monitored against the potential liquidity requirements on a quarterly basis using the Pension Risk Management Framework.

9. Scheme Funding

The Scheme Actuary is required to calculate the funding level for the Statutory Funding Objective (SFO), in the manner prescribed by the Pensions Act 2004, and the relevant regulations¹. The SFO funding level will be reviewed formally at each triennial valuation, and the Trustee also receives annual updates on developments in the Scheme's assets and liabilities.

If the SFO funding level of any individual College's section of the Scheme falls below 100%, it is the Trustee's policy to ensure that contributions are agreed with the College and the Scheme Actuary so that the College is expected, in the normal course of events, to attain the 100% funding level within such period as might be deemed appropriate by the Management Committee taking account of the requirements of the Pensions Regulator.

In setting the investment policy, the Trustee will have regard to the influence that this will have on future SFO funding levels and the possibility of this measure falling below 100%.

¹ Details of the assumptions are given in the Report on the Actuarial Valuation as at 31 March 2023 dated [28 June 2024].

10. Responsible Investment

Environmental, Social and governance Factors

Environmental, Social and Governance issues, including the financial risks presented by climate change, may be financially material to the investment portfolio over the Schemes' time horizon. The Trustee considers the long-term financial interests of the Schemes to be paramount and, where appropriate and practical:

- i) expect their investment manager to consider financially material environmental, social and governance issues in investment decision-making where it has the discretion to do so;

- ii) expect their investment manager to practice good stewardship which includes engaging with issuers of debt or equity on financially material environmental, social or governance issues, and use its voting rights to effect the best possible long-term outcomes.

Non-financial matters, such as the views of beneficiaries and members including (but not limited to) their ethical views and their views in relation to social and environmental impact, are not taken into account in the selection, retention and realisation of investments.

Stewardship

The Trustee recognises that good stewardship practices, including engagement and voting activities are important as they help preserve and enhance asset owner value over the long term.

Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers where appropriate.

The Trustee expect their investment managers to practice good stewardship. This includes monitoring, engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social or governance considerations, and using voting rights to effect the best possible long-term outcomes.

The Trustee's investment advisers assess the ability of each investment manager in engaging with underlying companies in order to promote the long-term success of the investments, and reports to the Trustee on an annual basis covering how the investment managers have acted in line with this policy.

When selecting, monitoring and de-selecting asset managers, stewardship is factored into the decision-making process to the appropriate level for the specific asset class in question.

Engagement with relevant persons includes the exercise of rights (including voting rights) attaching to the Scheme's equity investments which are exercised by the asset managers of the Scheme. The Trustee monitors and discloses the voting records of its managers on an annual basis.

The Trustee holds overall responsibility for the stewardship practices of the Scheme's investment managers. The Trustee expects all its investment managers to practice good stewardship and to exercise influence wherever possible. The Scheme has a stand-alone Stewardship Policy which describes the Trustee's approach to stewardship and engagement in more detail, including: its priority stewardship themes; its treatment of significant votes; and process for overseeing parties that carry out stewardship and engagement activity, including exercise of voting rights, on its behalf.

11. Investment Monitoring

Due to the benefits of cost and ease of implementation, it is the Trustee's preference to invest in pooled investment vehicles. The Trustee recognises that due to the collective nature of these investment, there is less scope to directly influence how the asset manager invests. However, the Trustee's investment advisers ensure the investment

objectives and guidelines of the manager are consistent with that of the Trustee.

When relevant, the Trustee requires its investment managers to invest with a medium to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe, subject to a minimum of three years. The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team.

Managers are paid an ad valorem fee for a defined set of services. The Trustee, via the Investment Committee reviews the fees regularly to confirm they are in line with market practices.

Date: 2 September 2024

APPENDIX – ASSET ALLOCATION

The Trustee operates a target range of [35%-45%] for the LDI portfolio of the total assets.

The Growth Assets are split between a Rebalancing Portfolio and Non-Rebalancing Portfolio, which include (but may not be limited to) the following assets. The permitted ranges of the asset classes, where relevant, are also shown. *[Please note that the figures in the table below are to be updated to reflect the latest investment management agreement amendments with Schroders]*

Rebalancing Portfolio	Permitted Range within this Portfolio (%)
Developed Market Passive Equities	[60 – 100]
Emerging Markets Active Equities	[0 – 25]
Structured Credit	[0 – 25]

Non-Rebalancing Portfolio
Long Lease Property
Direct Lending
Commercial Property
Renewables
Private Equity

