Cambridge University Press
Contributory Pension Fund

Statement of Investment Principles

October 2017
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1. **Introduction**

1.1. This is the Statement of Investment Principles prepared by the Trustee of the Cambridge University Press Contributory Pension Fund (the Fund). This statement sets down the principles which govern the decisions about investments that enable the Fund to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Funds (Investment) Regulations 2005 as amended by the Occupational Pension Funds (Investment) (Amendment) Regulations 2010.

1.2. In preparing this statement the Trustee has consulted Cambridge University Press, the employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustee are set out in Rules 80 and 81 of the Fund's Trust Deed & Rules, dated 21 April 2011. This statement is consistent with those powers.

2. **Choosing investments**

2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Fund's assets is delegated to one or more investment managers. The Fund's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, the Central Bank of Ireland or the U.S. Securities and Exchange Commission and are responsible for stock selection and the exercise of voting rights.

2.3. The Trustee reviews the appropriateness of the Fund's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

3. **Investment objectives**

3.1. The Trustee has discussed key investment objectives in light of an analysis of the Fund's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:

- to ensure that the Fund can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long-term positive real return;
• to manage the expected volatility of the returns achieved in order to control the level of volatility in the Fund’s required contribution levels;
• to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employer, the cost of current and future benefits which the Fund provides;
• to reduce the risk of the assets failing to meet the liabilities over the long term;
• to minimise the long-term costs of the Fund by maximising the return on the assets whilst having regard to the above objectives.

3.2 The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Fund’s liabilities. The Trustee has obtained exposure to investments that they expect will meet the Fund’s objectives.

4. Kinds of investments to be held

4.1 The Fund is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

4.2 The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole, which they normally would expect to be 0%, and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Fund’s auditors.

5. The balance between different kinds of investments

5.1 The Fund invests in assets that are expected to achieve the Fund’s objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3 The Fund will hold some cash routinely and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Fund’s asset allocation will be expected to change as the Fund’s liability profile matures.

6. Risks

6.1 The Trustee has considered the following risks for the Fund with regard to its investment policy and the Fund’s liabilities, and considered ways of managing/monitoring these risks:
The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Fund's Statement of Funding Principles.

The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Fund's funding basis.

The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.

The Trustee monitors the performance of each of the Fund's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.

Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

The Fund invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Fund's cashflow requirements. The Fund's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.

The Fund's liabilities are denominated in sterling. The Fund may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Some currency hedging is employed to manage the impact of exchange rate fluctuations.

The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.
7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Fund's funding position. The Trustee meets the Fund's investment managers as frequently as is appropriate, in order to review performance.

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Fund's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Fund accounts.

9. Socially Responsible Investment, Corporate Governance and Voting Rights

9.1. Social, environmental and ethical considerations are set by each of the investment managers, who also exercise the rights attaching to the investments in any pooled funds. Each of the Fund's investment managers will ultimately act in the best interests of the Fund's assets to maximise returns for a given level of risk.

9.2. The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code, and is supportive of the Code. However, the Trustee cannot usually directly influence the managers' policies on the exercise of investment rights where the Trustee holds assets in pooled funds. This is due to the nature of these investments.

9.3. The Trustee understands that investment rights will be exercised by the investment managers in line with the investment managers' general policies on corporate governance, which reflect the recommendations of the Code, and which are provided to the Trustee from time to time, taking into account the financial interests of the beneficiaries.

10. Agreement

10.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Fund auditor upon request.

Signed:.................................... Date:..............................

On behalf of the Cambridge University Press Contributory Pension Fund
Appendix 1  Note on investment policy of the Fund/Plan as at September 2017 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Fund has a strategic asset allocation as set out in the table below, which has been agreed after considering the Fund's liability profile, funding position, expected return of the various asset classes and the need for diversification.

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Allocation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>37</td>
</tr>
<tr>
<td>UK Equities</td>
<td>12</td>
</tr>
<tr>
<td>World (ex UK) Developed Equities</td>
<td>10</td>
</tr>
<tr>
<td>World (ex UK) Developed Equities (GBP hedged)</td>
<td>10</td>
</tr>
<tr>
<td>Emerging Market Equities</td>
<td>5</td>
</tr>
<tr>
<td>Diversified Growth Fund</td>
<td>35</td>
</tr>
<tr>
<td>Property</td>
<td>8</td>
</tr>
<tr>
<td>Multi Asset Credit</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

As at 31 August 2017, the 20% strategic allocation was invested in fixed interest gilts (5%) and index-linked gilts (15%). The Multi Asset Credit allocation is due to be implemented in the final quarter of 2017 and/or early 2018.

Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances. The Trustee monitors the asset allocation on a quarterly basis and rebalancing events are determined following discussions with the Fund's investment advisors after taking into consideration current market levels, recent performance, liquidity and transaction levels. As such, actual allocations may diverge at times from the strategic benchmark shown above.

The passive equity fund benchmark is rebalanced by LGIM, who monitor the control ranges for each of the pooled funds and buy and sell units as appropriate on its weekly dealing dates.
2. Choosing investments

The Trustee have appointed the following investment managers to carry out the day-to-day investment of the Fund:

- Legal and General Investment Management (LGIM) - Passive equities
- Baillie Gifford & Co Limited (Baillie Gifford) - Diversified Growth Fund
- Baring Asset Management (Barings) - Diversified Growth Fund
- CBRE Global Investment Partners (CBRE) - Property
- Hermes Investment Management (Hermes) - Multi Asset Credit
- Apollo Asset Management International (Apollo) - Multi Asset Credit

The Trustee also has an AVC contract with Prudential Assurance Company Limited for the receipt of members' Additional Voluntary Contributions (AVCs).

The investment managers and AVC providers are authorised and regulated by the Financial Conduct Authority, the Central Bank of Ireland or the U.S. Securities and Exchange Commission.

The investment benchmarks and objectives for each investment manager and AVC provider are given below:
<table>
<thead>
<tr>
<th>Investment manager</th>
<th>Fund</th>
<th>Benchmark</th>
<th>Objective*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apollo</td>
<td>Total Return Fund</td>
<td>LIBOR</td>
<td>To outperform the benchmark by 6-8% pa before fees (equivalent to 5.2 – 7.2% pa after fees)</td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>Diversified Growth Fund</td>
<td>Bank of England Base Rate</td>
<td>To outperform the benchmark by at least 3.5% pa after fees over rolling five year periods with annual volatility of less than 10%</td>
</tr>
<tr>
<td>Barings</td>
<td>Dynamic Asset Allocation Fund</td>
<td>3 month LIBOR</td>
<td>To outperform the benchmark by 4% pa after fees over rolling three year periods</td>
</tr>
<tr>
<td>CBRE</td>
<td>Osiris Property Fund</td>
<td>A composite of AREF/IPD QPFi All Balanced Property Fund Index</td>
<td>To out-perform the benchmark by 0.5% p.a. gross of fees (equivalent to 0.3% pa after fees)</td>
</tr>
<tr>
<td>Hermes</td>
<td>Multi Strategy Credit Fund</td>
<td>n/a</td>
<td>To generate a high level of income by primarily investing in a diversified portfolio of credit securities including investment grade bonds, high yield bonds, credit default swaps and money market securities (including commercial bank loans) while exhibiting lower volatility relative to the global high yield market.</td>
</tr>
<tr>
<td>LGIM</td>
<td>UK Equity Index Fund</td>
<td>FTSE All Share</td>
<td>To track the benchmark within +/- 0.25% p.a. for two years in three</td>
</tr>
<tr>
<td></td>
<td>World (ex UK) Equity Index Fund</td>
<td>FTSE All World Developed World (ex UK)</td>
<td>To track the benchmark within +/- 0.5% p.a. for two years in three</td>
</tr>
<tr>
<td></td>
<td>World (ex UK) Equity Index Fund – GBP hedged</td>
<td>FTSE All World Developed World (ex UK) GBP hedged</td>
<td>To track the benchmark within +/- 0.5% p.a. for two years in three</td>
</tr>
<tr>
<td></td>
<td>World Emerging Markets Equity Index Fund</td>
<td>FTSE All World – All Emerging</td>
<td>To track the benchmark within +/- 1.5% p.a. for two years in three</td>
</tr>
</tbody>
</table>

*The LGIM funds aim to track the respective index before fees and as such may be expected to underperform net of fees.
The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

3. Fee agreements

[Fee arrangements with investment managers are not publicly available]

4. Investments and disinvestments

Investments and disinvestments are usually made so as to move the actual asset allocation more in line with the target asset allocation, albeit the liquidity of the funds are taking into consideration. The Fund receives regular income payments from Apollo, CBRE, Hermes and LGIM. When appropriate, the Trustee,
on the Fund's administrator's recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements. The Trustee considers that a sufficient proportion of the Baillie Gifford, Barings, Hermes and LGIM funds are adequately marketable and should enable sufficient cash to be realised in all foreseeable circumstances.