Durham University Pension Scheme (the "Scheme")
Statement of Investment Principles (the "Statement")

1. Scope of statement

This Statement has been prepared in accordance with Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is February 2025. The Trustee will review this Statement and the Scheme's investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

2. Consultations made

The Trustee has consulted with the Employer, Durham University, on this Statement and will take the Employer's comments into account when it believes it is appropriate to do so.

The Trustee is responsible for the investment strategy of the Scheme. The Trustee has obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by its investment consultant, Mercer Limited ("Mercer"), which is authorised and regulated by the Financial Conduct Authority.

The day-to-day management of the Scheme's assets has been delegated to fund managers which are authorised and regulated by the Financial Conduct Authority.

3. Objectives and policy for securing objectives

The Trustee's objectives for setting the investment strategy of the Scheme have been set with regard to the Scheme's Statutory Funding Objectives, as set out in the Statement of Funding Principles.

The Trustee's primary objectives are:

- "funding objective" – to ensure that the Scheme is fully funded using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Employer;
- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy; and
- "security objective" – to ensure that the solvency position of the Scheme (as assessed on a low risk basis) improves. The Trustee will take into account the strength of the Employer's covenant when determining the expected improvement in the solvency position of the Scheme.

The Trustee recognises that these objectives may diverge. For example, a greater allocation to more defensive assets may give greater security, but may result in a longer time to full funding on a low risk basis or a level of required contributions that the Employer may find too difficult to support. The Trustee also recognises that in resolving this divergence, it is necessary to accept some risk.

4. Asset allocation strategy

Asset Class	Strategic Weight (%)	Range (%)
Equities	12.5	7.5 – 17.5
Investment Grade Credit	10.0	5.0 – 15.0
Multi-Asset Credit	10.0	5.0 – 15.0
Illiquid Credit	20.0	15.0 – 30.0
Matching Portfolio	47.5	40.0 – 55.0

The Trustee has set a strategic interest rate and inflation hedge ratio target of 75% of total liabilities (as a proportion of Long Term Funding Target "LTFT" liabilities). The basis for calculating the LTFT liabilities is currently gilts + 0.6% p.a. including a margin for expenses and other uncertainties.

The Matching allocation can invest in a basket of hedging instruments which will change over time. These will include gilts (both fixed interest and index linked), swaps (interest rate and inflation), gilt repo and other instruments used for risk management purposes. The Matching allocation also includes a holding in the Sterling Liquidity Fund for collateral management purposes.

5. Hedging Policy

The Trustee is responsible for overseeing the construction and monitoring of the Scheme's LDI assets. The Trustee has delegated this responsibility of day-to-day management of the matching portfolio to Legal & General Investment Management "LGIM" via the Enhanced Service Agreement "ESA".

LGIM are responsible for monitoring the level of hedging achieved by the Scheme's assets and altering the composition of the Scheme's LDI assets to keep the hedge ratio within defined limits. Hedge ratios are expressed relative to the Scheme's Liability Benchmark Portfolio which aims to mirror the Scheme's liability sensitivities to interest rates and inflation.

In achieving the Scheme's target hedge ratio the Trustee is responsible for ensuring that collateral levels within the LDI portfolio are sufficient to ensure the hedge is sustainable. Monitoring of collateral levels and implementation of collateral calls is delegated to LGIM. LGIM are responsible for setting and monitoring the collateral levels within the pooled LDI funds the Scheme invests in. Under the ESA, the Trustee has put in place a framework which can be used to provide additional collateral to the LDI funds if required. When determining how the framework will work in practice the Trustee has taken the liquidity of the Scheme's assets into account.

6. Investment risk measurement and management

The key investment risks are recognised as arising from asset allocation. These are assessed at least triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustee takes advice (using asset and liability modelling techniques) on the continued appropriateness of the investment strategy.

Risks associated with changes in the Employer covenant are assessed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy) and also by reviewing the Employer's annual report and accounts. The Trustee also has an agreement with the Employer to receive notification of any events, which have the potential to alter the creditworthiness of the Employer. In particular, the Trustee will be informed of Type A events (events that are materially detrimental to members and/or the ability of the Scheme to meet its pension liabilities), as defined in appropriate guidance issued by the Pensions Regulator and Employer-related Notifiable Events. Also, the Employer will give notice if placed under 'Special Measures' by the Higher Education Funding Council for England. On receipt of any such notifications, the Trustee will re-consider the continued appropriateness of the Scheme's existing investment strategy.

The Trustee monitors the risks arising through the selection or appointment of fund managers on a quarterly basis via investment monitoring reports prepared by its professional advisers. The Trustee has appointed Mercer to alert it on any matters of material significance that Mercer views would affect the ability of each fund manager to achieve its objectives.

The Trustee acknowledges that investment returns achieved outside the expected deviation (positive or negative) may be an indication that the fund manager is taking a higher level of risk than indicated.

For due diligence purposes, the Trustee aims to meet at least three times a year and will meet the fund managers as regularly as deemed necessary to ensure good governance.

7. The balance between different kinds of investments

The Trustee recognises that the key source of financial risk and reward (in relation to meeting its objectives) arises from asset allocation.

It therefore retains responsibility for setting asset allocation, and takes expert advice as required from its professional advisers.

The Trustee believes the most appropriate means of determining asset allocation is by asset and liability modelling, which is carried out following each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). Therefore, as a minimum, the asset allocation is formally reviewed once every three years, with more regular reviews undertaken as required.

A broad range of available asset classes has been considered. This includes consideration of active and passive equities, investment grade credit, multi-asset credit, liability-driven investments and alternative asset classes, which include longer-term illiquid credit assets. Hedge funds are excluded from consideration.

8. Choosing investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme and the Trustee's objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The Trustee exercises its powers of investment in a manner calculated to ensure the security, quality, liquidity, and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk, a spread of assets is held. The diversification is both within and across the major asset classes. Day-to-day selection of stocks is delegated to fund managers appointed by the Trustee.

Assets held to cover the Scheme's technical provisions (the liabilities of the Scheme) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly in regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

The Trustee does not hold any direct investments in derivatives, although the Scheme's fund managers may do so long as it contributes to the reduction of investment risk or facilitates efficient portfolio management. The most material underlying exposure to derivatives is via the LDI mandate with LGIM where derivatives are held to better match the Scheme's liabilities.

9. Custody

Investment in pooled funds gives the Trustee a right to the cash value of the units, rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the fund's assets.

The custodians are independent of the fund managers.

10. Expected returns on assets

"Return-seeking" assets target a higher expected return than that of risk reducing/matching assets and typically have a higher associated volatility, relative to liabilities. These assets would typically involve equities and also include alternative asset classes such as absolute return funds, infrastructure, emerging markets and property funds.

"Risk-reducing" (or matching) assets have characteristics that are broadly similar in nature to the liabilities. These assets are predominantly bonds and could also include other financial instruments such as interest rate and inflation swaps.

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustee, in consultation with its advisers and fund managers.

11. Realisation of investments/liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised, should the need arise. The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds), although the Trustee also holds a proportion of assets in less liquid investments (such as illiquid credit strategies, which have a predefined fund life during which redemptions may not be possible).

12. The arrangements with asset managers

The Trustee monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the fund managers are aligned with its policies. This includes monitoring the extent to which fund managers:

- 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 its investment consultant.

The Trustee receives regular reports and verbal updates from its investment consultant 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's objectives, and assesses the fund managers over 3-year periods.

The Trustee also receives annual stewardship reports 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 reviews the Scheme's exposure to controversial sectors on an annual basis, with a particular focus on: gambling; tobacco; controversial weapons; pornography; thermal coal and other fossil fuel investment; and companies that violate fundamental ethical norms (for example, those in contravention of the UN Global Compact). Where appropriate the Trustee will engage with fund managers on the rationale for such investments. The Trustee believes that it has a duty to invest in a responsible manner and, where appropriate, will query fund managers on the rationale for holding positions in companies which contribute significant negative externalities to society, regardless of whether the action may be financially material.

The Trustee shares its policies, as set out in this Statement, with the Scheme's fund managers, and requests that the fund managers review and confirm whether their approach is in alignment with those of the Trustee.

Before appointing 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. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation – for example if the Scheme invests in a collective vehicle – then the Trustee will express its expectations to the fund managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

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 and non-financial performance.

There is typically no set duration for arrangements with fund managers, although the continued appointment for all fund managers is reviewed periodically. For certain closed-ended vehicles, the duration may be defined by the nature of the underlying investments.

12. Environmental, social and governance considerations

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 believes that in order to fulfil this commitment and to protect and enhance the value of the Scheme's investments, it must act as a responsible steward of the assets in which the Scheme invests.

The Trustee further acknowledges that an understanding of financially material considerations including environmental, social and corporate governance ("ESG") factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

As part of its delegated responsibilities, the Trustee expects the Scheme's fund managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee requires that, where relevant, its fund managers:

- seek to understand the social, environmental and ethical policies of the companies in which investments are made;
- consider social and other policies alongside other factors affecting long-term prospects, when evaluating companies for investment; and
- consider the United Nations Principles for Responsible Investment ("UNPRI") where appropriate.

The Trustee acknowledges, and is comfortable with the fact, that the structures and objectives of some of the Scheme's investments may mean that the fund managers' views on these areas may not impact on investment decisions.

13. Activism, and the exercise of the rights attaching to investments

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which the Scheme's investments reside. The Trustee recognises that ultimately this protects the financial interests of the Scheme and its beneficiaries.

The Trustee delegates all stewardship activities, including voting and engagement, to its appointed fund managers. The Trustee accepts responsibility for how the fund managers steward assets on its behalf, including the casting of votes in line with each manager's individual voting policies.

The Trustee expects the Scheme's fund managers to use their influence as major institutional investors to carry out the rights and duties as a shareholder, including exercising voting rights along with – where relevant and appropriate – engaging with underlying investee companies on ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

The Trustee reviews its managers' voting and engagement policies and activities on an annual basis. The Trustee reviews these factors to check they are aligned with expectations and can reasonably be considered to be in the Trustee's, and therefore the members', best interests. The Trustee expects that their fund managers will provide details of their stewardship activities on at least an annual basis, and will monitor this with input from their investment consultant. The Trustee will engage with their fund managers where necessary for more information. Prospective managers are required to provide this information in advance of their appointment.

The Trustee expect its managers to be transparent in its reporting of its stewardship activities. Reporting on engagements should include objectives and relevance to the Scheme, method of engagement, progress and perspectives around shortcomings, outcomes to date, escalation points and procedures as necessary.

Reporting for voting activity should include how the manager voted (for/against etc) and the rationale with relevance to the Scheme. In particular, where votes were cast against management; votes against management were significant, votes were abstained or the voting differed from the voting policy of the manager.

If the Trustee's monitoring reveals that a fund manager's voting or engagement policies, or its stewardship actions are not aligned with the Trustee's expectations, the Trustee will engage with the manager, via different medium such as emails and meetings, to seek a more sustainable position, but it may look to replace the manager. The Trustee regularly reviews the continuing suitability of the appointed fund managers and takes advice from its investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed fund managers.

To this end, the Trustee expects the Scheme's fund managers to use its influence as a major institutional investor to exercise the Scheme's rights and duties as a shareholder including voting, along with — where relevant and appropriate — engagement with underlying investee companies.

The Trustee will engage with its fund managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. Furthermore, the Trustee will ask the Scheme's fund managers to provide details about the ways in which they are undertaking these activities in comparison to their policies and relevant codes of practice.

As an active owner, the Trustee will require its fund managers and other service providers to be signatories to the United Nations Principles for Responsible Investment ("UNPRI") — or to explain why they aren't — and to act in accordance with the UK Corporate Governance Code (or their equivalents for overseas investments).

The Trustee further expects the Scheme's appointed fund managers to comply with the United Nations Global Compact and additionally, the Trustee has identified key factors around environmental impact, social impact and corporate governance, and will level scrutiny on its fund managers accordingly. The Trustee expects its fund managers to prioritise and actively monitor these risks within its respective investment processes and to provide transparency on engagement and voting actions with respect to the mitigation of these risks as appropriate.

The transparency offered for engagements should include objectives and relevance to the Scheme, the methods of engagement and the processes for escalating unsuccessful engagements. The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; and where voting differed from the voting policy of either the Trustee or the fund manager.

Where voting is concerned, the Trustee expects its fund managers to recall stock lending as necessary, in order to carry out voting actions.

The Trustee expects the Scheme's fund managers to consider collaboration with others, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, a fund manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including its performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

14. Members' 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 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"[1]).

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

15. Costs and transparency

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 a number of other costs incurred by its fund managers, that can increase the overall cost incurred by their investments.

The Trustee collects annual cost transparency reports, covering all of its investments, and asks that the fund managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what it is paying its fund managers.

The Trustee will only appoint fund managers who offer full cost transparency via the CTI templates to manage assets of the Scheme. This will be reviewed before the appointment of any new fund managers and includes the existing fund managers held by the Scheme.

Targeted portfolio turnover is defined as the expected frequency with which each underlying fund manager's fund holdings change over a year. Where required, the Trustee engages with its fund managers to understand the methodology used to calculate the transaction costs incurred, especially where transaction costs are material in size, relative to other underlying costs. The Scheme's investment consultant monitors this on behalf of the Trustee, as part of the manager monitoring it provides to the Trustee, and flags to the Trustee where there are concerns.

The Trustee accepts that transaction costs will be incurred to drive investment returns, and that the level of these costs varies across asset classes and by fund manager style within an asset class. In both cases, a high level of transaction costs is acceptable, as long as it is consistent with the asset class characteristics and fund manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustee reviews the performance of its fund managers on a quarterly basis and the remuneration of its fund managers on at least an annual basis, by collecting cost data in line with the CTI templates. The Trustee undertakes detailed analysis and discussions once the latest cost disclosure data has been received, with the assistance of its investment consultant. The Trustee seeks to limit total costs at 1% p.a. of total Scheme assets and thorough explanations are required from a given fund manager where its total costs exceed 1% p.a. of assets under management.

The Trustee assesses value for money received from its fund managers on a regular basis by benchmarking its fund managers relative to the wider market. This enables the Trustee to have a detailed understanding of its overall costs, irrespective of net of fees performance, and identify opportunities to challenge its fund managers if a particular fund manager is an outlier. The Trustee looks to address any costs that appear out of line with the market, via discussions with its investment consultant and fund managers directly.

The Trustee reviews how it remunerates its fund managers at the appointment of the mandate and on an annual basis. The Trustee considers whether fund managers should be remunerated on a fixed or performance fee basis on a case-by-case basis, dependent on the fund manager's fee proposal and ongoing performance of the fund.

16. Effective decision making

The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. It also recognises that where it takes investment decisions, it must have sufficient expertise and appropriate training to be able to evaluate critically any advice it takes.

17. Additional voluntary contributions ("AVCs") arrangements

Some members obtain further benefits by paying AVCs to the Scheme. From time to time, the Trustee will review the choices of investments available to members to ensure they remain appropriate to the members' needs. The value of the members' investments is dependent on the chosen strategy, and managed independently of the other Scheme assets.

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For and on behalf of the Trustee of the Durham University Pension Scheme