Statement of Investment Principles (the "Statement")

University of St Andrews Superannuation & Life Assurance Scheme (the "Scheme")

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), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended), the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 (collectively, the "Regulations"). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. A separate document, the Investment Policy Implementation Document ("IPID"), detailing the specifics of the Scheme's investment arrangements is available upon request.

The effective date of this Statement is 15 August 2023. The Trustees will review this Statement annually, and without delay after any significant change in investment policy and will review the Scheme's investment strategy no later than three years after the effective date of this Statement.

Consultations made

The Trustees have consulted and will consult with the University of St. Andrews (the "University") on any changes to this Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

The Trustees are responsible for the investment strategy of the Scheme and have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited ("Aon") who are authorised and regulated by the Financial Conduct Authority.

The Trustees have consulted and will consult with the Scheme Actuary, as appropriate, in regularly reviewing this Statement, normally on an annual basis, or where the Trustees consider a review is needed for other reasons.

The Trustees have consulted and will consult with the members, as appropriate. In 2020, the Trustees conducted a member survey ahead of deciding the updated Scheme strategy (in line with the 2020 Investment Strategy Review). The views of the members – primarily that socially responsible investments should be central to the strategy – were incorporated in the investment decisions made by the Trustees.

Delegation

The day-to-day management of the Scheme's assets has been delegated to investment managers appointed under s36 of the Pensions Act 1995, authorised under the Financial Services & Markets Act 2000 and regulated by the Financial Conduct Authority. A copy of this Statement has been provided to the investment managers appointed, is available to the members of the Scheme and will be published on a publicly accessible website.

The Trustees are satisfied that the investment managers have the appropriate knowledge and expertise for managing the investments of the Scheme and they carry out their role in accordance with Regulations, this Statement, and guidelines set by the Trustees.

Objectives

The Trustees' primary objectives for setting the investment strategy of the Scheme are:

a. The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from members and the University, the cost of current and future benefits of the Scheme.

b. To aim to deliver the investment return required to meet the Scheme's funding objectives, whilst also limiting the risk of the assets failing to meet the Scheme's liabilities over the long term.

c. To invest in an environmentally and socially responsible way where pragmatically possible, whilst appreciating that the Scheme's main priority is the delivery of the required investment return.

d. To manage, and minimise where possible, the long-term costs of the Scheme.

The investment strategy chosen by the Trustees aims to maximise the likelihood of achieving these objectives.

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 Trustees' objectives.

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

The Trustees exercise their power 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 investment managers appointed by the Trustees. As regards the review and selection of its investment managers, the Trustees take expert advice.

The assets of the Scheme are invested mainly in pooled vehicles (or funds) which are regulated. Within these funds the assets are predominantly invested on 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 Scheme's portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The balance between different kinds of investments

The Trustees recognise that the key source of financial risk (in relation to meeting its objectives) arises from asset allocation. The Trustees therefore retain the responsibility for setting asset allocation and take expert advice as required from their professional advisers.

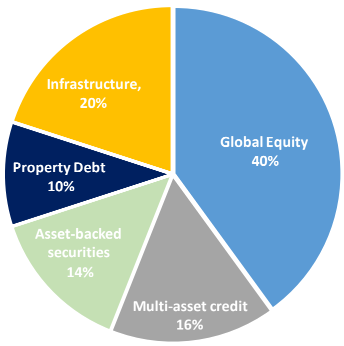
The Trustees review the investment strategy following each triennial actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way).

The Trustees recognise the potential volatility in asset returns, particularly relative to the Scheme's liabilities, and the risk that the fund managers chosen by the Trustees do not achieve the targets set. When appointing the investment managers, the Trustees considered advice from their investment consultant concerning the following:

- The need to consider a full range of asset classes (including alternative 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.

The Trustees completed a detailed investment strategy review during 2020 and considered the output of an asset and liability modelling exercise. The Trustees agreed to a long term strategic asset allocation as detailed below and accept that it will take time for the illiquid assets to draw down the committed capital.

Long-Term Strategic Allocation



The Trustees recognise that the actual weights to the different asset classes and investment managers selected to implement the investment strategy will vary over time and deviate from time to time from the strategic asset allocation weights. The Trustees therefore set a tolerance range around the strategic asset allocation weights which the actual asset allocation may lie. Further detail is set out in the IPID. The Trustees take professional advice with regards to any investment rebalancing and implementing any short term tactical investment views.

Risk Management

The Trustees recognise that there are a number of risks involved in the investment of the assets of the Scheme. The key risks are discussed below. The Investment Sub-Committee has a key focus on the management of these risks.

- Solvency risk and mismatching risk:
  - are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
  - are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
- Manager risk:
  - is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
  - is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.
- Liquidity risk:
  - is the risk in holding assets that cannot be easily realised should the need arise and is measured by the level of cashflow required by the Scheme to meet its obligations.
  - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy, and by the Trustees ensuring that assets generate sufficient income or are suitably realizable alongside contributions to meet the longer-term obligations.

- Political risk:
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- Sponsor risk:
  - is measured by the level of ability and willingness of the University to support the continuation of the Scheme and to make progress towards the Scheme Specific Funding Requirements.
  - is managed by assessing the interaction between the Scheme and the University's business, as measured by a number of factors, including the creditworthiness of the University and the size of the pension liability relative to a number of metrics reflecting the financial strength of the University.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner. Some of these risks may also be modelled explicitly during formal reviews of the investment strategy.

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it through the Scheme's investment strategy, the Trustees' policy is to monitor, where possible, these risks quarterly. The Trustees receives quarterly reports showing:

- Performance versus the Scheme investment objective;
- Performance of individual managers versus their respective targets; and
- Any significant issues with the Scheme's investment managers that may impact their ability to meet the performance targets.

The Trustees have appointed Aon to alert them on any matters of material significance that might affect the ability of the appointed managers to achieve their respective objectives.

Custody

Investment in pooled funds gives the Trustees the 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 Scheme's assets. The custodians are independent of the employer.

Scheme Specific Funding Requirements

The Trustees commissioned a full actuarial valuation of the Scheme as at 31 July 2021. This exercise identified a Scheme Specific Funding Requirement. In response, the Trustees in consultation with the University, produced a recovery plan for the Scheme. The recovery plan will restore the Scheme to a funding balance over a period of 5 years from the valuation date. The Trustees consider that the Investment Principles outlined in this document are consistent with this recovery plan. The Trustees will continue to monitor closely progress of the Scheme against this plan.

Expected return on investments

The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisers on these matters, who they deem to be appropriately qualified experts.

Over the long term, the overall level of investment return is expected to exceed the rate of return assumed by the Actuary in calculations for the funding of the Scheme under the Scheme Specific Funding Requirements.

Environmental, Social, and Governance ("ESG") Considerations

In setting the Scheme's investment strategy, the Trustees' 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 Trustees consider investment risk to include ESG factors and climate change. The Trustees recognise that Environmental, Social, and Governance ("ESG") matters often manifest as financially material risks and opportunities. These risks could negatively impact the Scheme's investments, and consequently the Scheme's members and beneficiaries, but can also lead to positive investment opportunities which address broader societal and environmental challenges alongside delivery of an appropriate financial return. Where relevant and appropriate for the Scheme, the Trustees welcome investment opportunities which explicitly embed these factors.

As such, the Trustees expect that their appointed investment managers will consider these matters and emerging opportunities in the selection, realisation and retention of underlying investments. When appointing a new investment manager the Trustees will, with the support of their appointed investment consultant, assess the manager's capabilities and integration of ESG considerations as a factor in any manager selection activity. To assist with this, the Trustees have undertaken a beliefs discovery process to articulate the consensus views of the Trustees relating to responsible investment as a core consideration of the Scheme's investment strategy.

Aligned to this, the Trustees recognise the commitments and efforts made by the University to sustainable outcomes, including achieving carbon neutrality, zero landfill waste, and water conservation. The Trustees support the University's beliefs in these areas.

The Trustees believe that climate change presents a systemic risk to the environment, society and every economy on the planet, with the potential to impact on every investment and the Scheme's beneficiaries.

The Trustees consider ESG matters by taking advice from their investment consultant, who also provides the Trustees with details regarding best practice, support in considering ESG matters relevant to the Scheme, and the ways in which this is considered by the appointed investment managers.

The Trustees believe they have a duty as institutional investors to invest in a responsible manner and, where relevant, will query managers on the rationale for holding positions in sectors or companies which contribute significant negative externalities to society, regardless of whether the action may be financially material.

The Trustees have appointed investment managers to manage the Scheme's assets. These managers invest in a range of underlying investment vehicles.

As part of the management of the Scheme's assets, the Trustees expect the managers to:

- Where relevant, assess the integration of ESG factors in the investment process of underlying assets and/or managers;
- Use their influence to engage with underlying assets and/or managers to ensure the Scheme's assets are not exposed to undue risk; and
- Report to the Trustees on its ESG activities as required.

Stewardship – Voting and Engagement

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

The Trustees delegate all stewardship activities, including voting and engagement, to its appointed investment managers. The Trustees accept responsibility for how the investment managers steward assets on their behalf, including the casting of votes in line with each manager's individual voting policies. To this end, the Trustees have reviewed the PRI principles and welcome the active ownership standards set forth. The Trustees expect their appointed investment managers to articulate how they support active ownership and stewardship in their activities, particularly with reference to improving standards of corporate governance and asset performance to mitigate risks to the Scheme’s assets.

The Trustees have identified areas of concern regarding exposure to investments in sectors which contribute to societal or environmental harm, including fossil fuels, tobacco, gambling, and controversial weapons, and are cognisant of the risk that such investments may not be sustainable activities in the long term. It is the expectation of the Trustees that the Scheme’s investment managers will actively monitor for these risks within the investment arrangements, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate.

The Trustees review the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions. The Trustees will review the alignment of the Trustees’ policies to those of the Scheme’s investment managers and ensure their managers use their influence as major institutional investors to carry out the Trustees’ rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustees regularly review the suitability of the Scheme’s appointed investment managers and take advice from their investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustees have set out in their policy, the Trustees undertake to engage with the manager, via different mediums such as emails and meetings, and seek a more sustainable position but may look to replace the manager.

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; or
- voting differed from the voting policy of either the Trustees or the investment manager.

The Trustees may engage with their investment managers, who in turn are able to engage (where appropriate) with underlying investee companies or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustees will consider, on a case by case basis, a range of methods by which they would monitor and engage so as to bring about the best long-term outcomes for the Scheme.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme’s investment strategy the Trustees are not required to explicitly seek 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" in the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018). Where Scheme members share their views with the Trustees, these will be considered.

Arrangements with investment managers

The Trustees regularly monitor the Scheme’s investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustees’ policies, including those on ESG matters which are recognised as being financially material. This includes monitoring the extent to which the Scheme’s investment managers:

- make decisions based on assessments about medium- to long-term financial and non-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 Trustees receive quarterly reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the Scheme's portfolio.

The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme’s objectives, and assess the investment managers over 3-year periods.

There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Before appointment of a new investment manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees’ policies. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustees will express their expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at trustee meetings).

The Trustees also receive annual stewardship reports on the voting and engagement activities carried out by the investment managers, which supports the Trustees in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

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

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

Monitoring of investment manager costs

The Trustees assess the performance of their investment managers on a net of all costs basis and recognise that this provides an incentive on the manager to control costs. However, they also believe that explicit, regular monitoring of the level and the trends of costs incurred will enhance those incentives.

The Trustees expect their investment managers to offer full cost transparency annually via industry standard templates. This will be reviewed before the appointment of any new manager and includes the existing managers held by the Scheme.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers’ fund holdings change over a year. The Scheme’s investment consultant monitors this on behalf of the Trustees as part of the manager monitoring they provide to the Trustees and flags to the Trustees where there are concerns.

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

The Trustees evaluate the performance of their investment managers relative to their respective objectives on a regular basis via their investment monitoring reports and updates from the investment managers.

The Trustees also review the remuneration of the Scheme's investment managers on at least a triennial basis to ensure that these costs are reasonable in the context of the kind and balance of investments held.

Additional Voluntary Contributions (AVCs)

The Scheme provides a facility for members to pay AVCs into the Scheme in addition to their main Scheme benefits. Members are offered a range of funds managed. The Trustees will regularly review their providers and the choice of investments available to members to ensure they remain appropriate. Further details are included in the IPID.

Effective decision making

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where the Trustees take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice received. The Trustees receive regular investment training from their investment consultant and also investment managers in order to make informed decisions.

The Trustees will discuss all investment decisions regarding strategy and manager structure with assistance from the Scheme's investment consultant, before decisions are taken.

Agreed and approved by the Trustees of The University of St Andrews Superannuation and Life Assurance Scheme on 15 August 2023.