

# **Cancer Research UK Pension Scheme**

## **Statement of Investment Principles**

**Effective from: 1 November 2023**

### **1. Introduction**

The Trustee of the Cancer Research UK Pension 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 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.

In preparing this Statement the Trustee has consulted the Charity, Cancer Research UK, to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme’s investment arrangements. The Charity has been particularly concerned to ensure the exclusion of tobacco-related investments, this issue is dealt with further in section 9 of this Statement. The Trustee has also obtained written advice from the Scheme’s Investment Consultant, who the Trustee believes to be suitably qualified and experienced to provide such advice.

### **2. Scheme Governance**

The Trustee sets the Scheme’s investment policy and has appointed a firm of professional investment consultants (the “Investment Consultant”) to provide relevant advice. The Trustee also takes advice as appropriate from the Scheme Actuary and other professional advisers. Before making any investment selection decision (eg an AVC policy) of its own, it is the Trustee’s policy to obtain written advice. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this Statement. It is also the Trustee’s policy to review its own investment selection decisions on a regular basis, based on written advice.

The Trustee is accountable for the investment of the Scheme’s assets and delegates some aspects of the Scheme’s investment arrangements in order to manage the Scheme’s affairs effectively. When deciding what to delegate, the Trustee considers whether it has the necessary skills, knowledge and professional support to make informed and effective decisions itself.

The Pensions Act 1995 distinguishes between investments where the management of assets is delegated to a fund manager under a written contract and those where a product is purchased without a contract, e.g. the purchase of insurance policies, known as direct investments.

The Trustee’s policy is to review its direct investments and to obtain written advice about them at regular intervals (normally annually). When deciding whether or not to make any new direct investments, the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The Trustee retains ultimate responsibility for setting the Scheme’s investment objectives.

In broad terms, the Trustee is responsible in respect of investment matters for:

- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change); and
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments.

The investment managers are responsible for day-to-day management of the Scheme’s assets in accordance with guidelines agreed with the Trustee. In the case of pooled investment vehicles in which

the Scheme invests, the documentation governing the pooled funds sets out the guidelines for those funds. The Scheme also uses bespoke pooled funds, for which the Trustee is able to set its own guidelines. At present, the Scheme does not hold any segregated investments. The investment managers have discretion to buy, sell or retain individual securities in accordance with these guidelines. The investment managers report to the Trustee regularly regarding their performance.

In broad terms, the investment managers will be responsible for:

- excluding tobacco-related investments from the Scheme's investments;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets; and
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments.

The Trustee has also chosen to purchase bulk annuity policies with a buy-in provider in respect of certain pension liabilities. In broad terms, the buy-in provider's responsibility is to pay the pensions secured under the bulk annuity contracts to the Scheme on an accurate and timely basis.

Custodians are responsible for the safekeeping of the Scheme's assets, both individual securities and holdings in collective vehicles, and for performing the associated administrative duties such as trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting. The Trustee is not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, in relation to the bespoke pooled investments, the Trustee has appointed a custodian to enable transactions to be undertaken efficiently as needed. The Trustee has noted the need to conduct periodic reviews of this custodian to ensure their continuing suitability. As such, the Trustee will request the Investment Consultant to provide, from time to time, an overall assessment of these custodial arrangements.

In broad terms, the Investment Consultant will be responsible, in respect of investment matters, as requested by the Trustee, for advising on the selection, and review, of the investment managers. Such advice takes account of the Investment Consultant's assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations).

The Scheme Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy for the Scheme.

### **3. Risk Management and Measurement**

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management is as follows:

- The key objective of the Trustee is that, over the long-term, the Scheme should have adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustee on a regular basis. The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and considered carefully the implications of adopting different levels of risk.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk of a mismatch of assets and liabilities, the Trustee aims to ensure

the asset allocation policy in place results in an adequately diversified portfolio. For the bespoke pooled funds, where the Trustee can set Scheme-specific guidelines, the Trustee has set guidelines that aim to ensure there is appropriate diversification within those funds.

- The documents governing the investment manager and bulk annuity provider appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The providers are prevented from investing in asset classes outside their mandate without the Trustee's prior consent.
- Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives regular reports from its investment managers and information from the Investment Consultant. These include an analysis of the overall level of risk and return, along with their component parts, to ensure the risks taken and returns achieved are consistent with those expected.
- There is a risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due (liquidity risk). The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed by establishing an appropriate cash float policy and by maintaining a degree of liquidity across the Scheme's investments.
- The Scheme is subject to credit risk (ie the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation) because it invests in fixed income securities. The Trustee manages its exposure to credit risk by only investing in pooled funds that either hold government bonds or have adequate processes in place to manage this risk.
- The Scheme is also subject to annuity provider risk – this is the risk that the buy-in provider fails to pay the pensions secured under the bulk annuity policies. This risk is mitigated by having selected a reputable insurer on the basis of advice from the Investment Consultant and financial due diligence undertaken by an external covenant advisor. Secondly, the Trustee is aware of the strict regulatory regime and solvency requirements to which all UK insurers are subjected. Thirdly, the annuities are expected to be substantially protected by the Financial Services Compensation Scheme (FSCS). Nonetheless the Trustee and its advisers will continue to monitor the buy-in provider on a periodic basis.
- Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy and manages the amount of currency risk by using pooled funds that hedge this currency exposure.
- The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds and interest rate and inflation swaps, via a bespoke pooled fund. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to have exposures to these risks in this manner.
- The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements. Examples include:
  - longevity risk (the risk that members live, on average, longer than expected) which has in part been mitigated through the purchase of the bulk annuity contracts with the buy-in provider; and
  - sponsor covenant risk (the risk that, for whatever reason, the Charity is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and is positioned to manage this general risk.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

#### 4. Further considerations in setting the investment arrangements

Broadly, in setting the strategy, the Trustee considers:

- a wide range of asset classes;
- the risks and rewards of a number of possible asset allocation options;
- the suitability of each asset class within each strategy, both across asset classes and within asset classes;
- the need for appropriate diversification between different asset classes;
- environmental, social and governance (ESG) factors, as one area of likely market inefficiency where managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability, as one factor among many that the Trustee should consider when making investment decisions; and
- the views of the Charity.

By taking these factors into account, the Trustee believes that the assets will be invested in the best interests of members and beneficiaries.

#### Current investment strategy

The following table shows the current strategic benchmark for the Scheme's assets (excluding the bulk annuity policies).

Asset Class	Strategic Allocation (%)	Permitted range (%)
Asset-backed securities	10.0	5.0 – 15.0
Corporate bonds	90.0	85.0 – 95.0
LDI portfolio (incl cash)		
<b>Total</b>	<b>100.0</b>	

There is no formal rebalancing policy. The Trustee monitors the asset allocation from time to time. If material deviations from the strategic allocation occur, it will consider with its advisers whether it is appropriate to rebalance the assets.

## 5. **Expected Return**

The key financial assumptions underlying the analysis undertaken by the Investment Consultant at the time of producing the most recent strategy recommendations were as follows:

- average long-term RPI inflation: 3.7% pa
- average long-term gilt yield: 4.3% pa
- average long-term return on corporate bonds above gilts: 1.1% pa

## 6. **Implementation of the investment arrangements**

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in the separate Investment Policy Implementation Document.

The Trustee has signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

The Trustee and investment managers to whom discretion has been delegated, exercise their powers having regard to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

**7. Additional Voluntary Contributions (AVCs)**

Under the terms of the trust deed, the Trustee is responsible for the arrangement and stewardship of AVCs paid by members. The Trustee reviews the investment performance of the chosen providers on a regular basis and takes advice as to the providers' continued suitability.

**8. Realisation of Investments**

The investment managers have discretion on the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The Trustee monitors the allocation between the appointed investment managers and between asset classes and rebalances the portfolio as required.

**9. Consideration of financially material and non-financial matters**

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). It seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

To the extent reasonably practical the Trustee has taken steps to ensure the Scheme's assets are not exposed to tobacco-related investments. A key financial reason for this is the potential adverse impact on the Charity from being associated with tobacco companies through its pension scheme investments. In addition, in view of the nature of the Employer's charitable mission, and particularly their key objective of working towards the day where the UK is tobacco free, the Trustee believes the majority of members would not wish to invest in tobacco-related investments. The Trustee has therefore adopted a policy of not investing in companies included in the Tobacco Sector of the various global market indices. The Trustee does not expect this exclusion to be materially financially detrimental over the long term. This policy applies to the main asset portfolio of the DB Scheme. For the Scheme's AVC investments, members are able to self-select funds from the available fund range to reflect their individual preferences.

**10. Stewardship**

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity,

stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. The Trustee expects the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

As the Scheme's investments are held through managers or pooled funds, the Trustee does not monitor or engage directly with issuers or other holders of debt or equity.

The Trustee monitors managers' activities in relation to ESG factors, voting and engagement on a regular basis. The Trustee seeks to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with its expectations.

The Trustee has selected some priority ESG themes to provide a focus for its monitoring of investment managers' voting and engagement activities. It reviews these themes regularly and updates them if appropriate. It communicates these stewardship priorities to the Scheme's investment managers (including any updates). The Trustee has chosen the following as its stewardship priorities:

- Climate change
- Business ethics, with particular focus on diversity, equity and inclusion
- Human rights

If the Trustee's monitoring identifies areas of concern, the Trustee will engage with the relevant manager to encourage improvements.

#### 11. **Compliance with this Statement**

The Trustee monitors compliance with this Statement annually and circulates a copy of the Statement to all the investment managers.

#### 12. **Review of this Statement**

The Trustee will review and revise, if necessary, this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

<b>Version</b>	<b>Date</b>
1.0	15 August 2002
2.0	2 July 2003
3.0	11 February 2004
4.0	18 April 2005
5.0	14 July 2005
6.0	28 February 2007
7.0	25 February 2009
8.0	16 November 2009
9.0	11 February 2010
10.0	1 December 2010
11.0	10 October 2011
12.0	16 November 2011
13.0	10 September 2014
14.0	14 March 2016
15.0	18 November 2016
16.0	2 March 2017

17.0	4 December 2017
18.0	25 June 2019
19.0	11 December 2019
20.0	10 September 2020
21.0	1 November 2023