Statement of Investment Principles – November 2025

1.1 Introduction

This is the Statement of Investment Principles made by the Trustee of the University of Edinburgh Staff Benefits Scheme (the Scheme) in accordance with the Pensions Act 2004, the Pensions Act 1995 (as amended) and The Occupational Pension Schemes (Investment) Regulations 2005 (as amended). It is subject to review by the Trustee at least every three years and without delay after any significant change in investment policy. The detail of the Trustee's approach to the management and monitoring of the Scheme's investments is documented in its Investment Policy Implementation Document.

In preparing this Statement, the Trustee consulted with the principal employer of the Scheme (The University of Edinburgh) and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

From 1 January 2011, the Scheme moved to a career average revalued earnings (CARE) basis for accrual of benefits.

1.2 Scheme objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death (before or after retirement) for their dependents, on a defined benefits basis.

The Trustee's over-riding funding principles for the Scheme are to:

- make sure the Scheme can meet its obligations to the beneficiaries of the Scheme
- pay due regard to the University of Edinburgh's interest on the size and incidence of employer's contribution payments
- ensure that an appropriate investment strategy is in place.

For employee members, benefits are based on service completed but allow for a revaluation of the pension earned in each year reflecting the impact of inflation in the period up to retirement. The value of liabilities is calculated on the basis agreed by the Trustee and the Scheme Actuary; the Trustee also considers the Scheme's funding position on a more stringent minimum-risk basis. These funding positions are monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

1.3 Investment strategy

1.3.1 Strategic benchmark

The Trustee has adopted a suitable strategic asset-allocation benchmark for the Scheme using advice provided by its investment adviser. All day-to-day investment decisions have been delegated to authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests. The Scheme benchmark is consistent with the Trustee's views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy takes due account of the maturity profile (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners) and funding level of the Scheme (relative to the funding bases used). The Trustee monitors fund performance relative to the agreed asset-allocation benchmark. It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme and will normally be reviewed annually. In considering strategy, the Trustee will seek advice as required.

The Scheme's strategic benchmark is based on an assessment of the ability of the investment strategy to meet the Trustee's objectives and is subject to further review.

The Trustee has adopted a strategic asset-allocation benchmark for the Scheme that reflects the quantitative objective set out above. This is set out in the table below.

Strategy Benchmark Asset Class	Target Allocation
Global Equities	20.0%
Private Equity	7.0%
Property	10.0%
Multi-Asset Credit (“MAC”)	10.0%
Private Lending	6.0%
Investment Grade Corporate Bonds	12.0%
Liability Driven Investments (LDI)	35.0%
Total	**100.0%**

Rebalancing policy

The Trustee has set a rebalancing policy whereby it reviews the Scheme’s asset allocation on a quarterly basis and rebalances as necessary. To assist in this, the Trustee has set an informal threshold deviation of +/- 10.0% of the respective strategic allocation, for ‘Growth’ assets, and +/- 7.5% of the respective strategic allocation, for ‘Income’ assets. E.g. a 20.0% strategic allocation to equities would warrant a +/- 2.0% rebalancing range.

1.3.2 LDI portfolio

In addition to the strategic benchmark above, the Trustee has agreed target hedge levels for the management of the Scheme’s interest rate and inflation exposure. The Trustee has a strategic hedging target of 80% on interest rates and 70% on inflation as measured on a ‘technical provisions’ basis.

1.4 Implementation of investment strategy

1.4.1 Choosing investments

The Trustee has appointed a number of investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business and are regulated by the Financial Conduct Authority to undertake investment management.

The Scheme’s assets are invested on a pooled fund basis by active and passive managers. The objective of passive investment management is to match the performance of the underlying index. Active managers have the discretion to purchase securities with the objective of outperforming an investment benchmark. The Trustee is satisfied that the pooled funds selected are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

1.4.2 Kinds of investments to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets, including equities, private equity, fixed interest, index-linked bonds, credit, cash and property, either directly or through pooled funds. The Scheme may also make use of derivatives and contracts for difference (either directly or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustee considers all of these classes of investment to be suitable in the circumstances of the Scheme.

1.4.3 Balance between different kinds of investments

The mix of investments is determined mainly by the choice of the strategic asset-allocation benchmark as outlined above. Within each major market, the manager will maintain a diversified portfolio of stocks through direct investment or pooled vehicles.

The asset-allocation benchmark has been determined with specific reference to the Scheme's liabilities and is reviewed formally at least once every three years. The Scheme's investment adviser monitors the overall Scheme allocation and reports to the Trustee at quarterly meetings.

1.4.4 Expected return on investments

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.

1.4.5 Realisation of investments

The majority of the Scheme's investments may be realised quickly if required. Property, private lending and private equity, which together represent 23% of the Scheme's strategic benchmark, may be difficult to realise quickly in certain circumstances.

1.5 Manager engagement

The Trustee has appointed investment managers to deliver returns relative to specific benchmarks, which will align overall to deliver the broader Scheme investment strategy. The Trustee ensures that its managers have clearly defined benchmarks, objectives and management parameters.

The Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Scheme. The Trustee will take advice in determining the appropriateness of each manager and mandate for the Scheme. By investing in this manner, the Trustee is confident that the managers appointed will make decisions that are commensurate with the period over which the Trustee expects to be invested in each mandate.

The Trustee reviews the performance of each of its mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed. The Trustee draws input from its investment adviser to support any such review of, and engagement with, its investment managers. Where necessary, the Trustee will highlight any areas of concern identified during such reviews to the manager as part of the engagement process.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an *ad valorem* basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower *ad valorem* fee. The Trustee periodically reviews the fees paid to all of its managers against industry standards.

The Trustee recognises the long-term nature of the liability profile and appoints its managers to invest in such a way that generates long-term sustainable returns. The Trustee will carry out necessary due diligence on the underlying investment decision-making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme's objectives.

. For open-ended investments, the Trustee generally engages with managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment to be three years, this being the period over which performance of the mandate can be appropriately evaluated. However, all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For closed-ended investments, the Trustee expects the term of the appointment to be the lifetime of the investment.

The Trustee has expectations of the level of turnover within each mandate which are determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the underlying portfolio. Whilst the Trustee expects financial performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee also expects managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period, including details of the costs associated with transactions. The Trustee will challenge the manager if there is a material deviation in portfolio turnover from expectations or historic experience within the mandate.

A summary of the Scheme's investment mandates and the respective benchmarks is included in the Appendix.

1.6 Risk

The Scheme is exposed to a number of risks that pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

1.6.1 Funding risks

- Financial mismatch
  1. The risk that Scheme assets fail to grow in line with the developing cost of meeting Scheme liabilities.
  2. The risk that unexpected inflation increases the pension and benefit payments, and the Scheme assets do not grow fast enough to meet the increased cost.
- Changing demographics – the risk that longevity improves and other demographic factors change increasing the cost of Scheme benefits.
- Systemic risk – the possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Scheme liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustee measures and manages financial mismatch in two main ways:

1. As indicated, it has set a strategic asset-allocation benchmark for the Scheme. It assesses risk relative to that benchmark by monitoring the Scheme's actual asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.
2. The Trustee has set target hedge ratios of 80% on interest rates and 70% on inflation (on a 'technical provisions' basis).

The Trustee keeps under review mortality and other demographic assumptions that could influence the cost of the benefits. These assumptions are considered explicitly at each formal valuation.

The Trustee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

1.6.2 Asset risks

- Concentration – the risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – the risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance – the failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

- Environmental, Social and Governance ("ESG") – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision-making, leading to underperformance relative to expectations.
- Climate risk – the extent to which climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to, policy change, physical impacts and the expected transition to a low-carbon economy.
- Credit default – the possibility of the default of a counterparty in meeting its obligations.

The Trustee manages asset risks as follows. There are practical constraints to prevent the Scheme's investments deviating greatly from the intended approach by setting diversification guidelines and by investing in a range of investment mandates. Each of these has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Trustee's expected parameters.

The strategy chosen by the Trustee employs both investment-grade and diversifying debt assets, ensuring credit and concentration risks are balanced appropriately. The Scheme's private lending mandate employs extensive due diligence and often has covenants that protect against default risk.

By investing across a range of assets, including quoted equities, LDI and cash, the Trustee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Trustee has considered the risk of underperformance by any single investment manager.

The Trustee does not expect managers to take excess short-term risk and will regularly monitor the managers' performance against the benchmarks and objectives set on a short, medium, and long-term basis.

The Trustee's approach to the consideration of ESG risks and climate risk is set out in further detail below.

1.6.3 Other provider risk

- Transition risk – the risk of incurring unexpected costs in relation to the transition of assets between managers. When carrying out significant transitions, the Trustee takes professional advice and considers the appointment of specialist transition managers.

The Trustee maintains a risk register to identify and monitor risks and document the control procedures it has in place.

1.7 Consideration of financially material factors in investment arrangements

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others.

The Trustee will consider such factors in the development and implementation of its investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow it to systematically do so. Where there is not sufficient data or evidence, the Trustee will engage with its investment managers to ensure they take such considerations into account in their decision-making.

The 2018 Investment Regulations came into effect on 1 October 2019. The regulations aim to clarify language around the consideration of broader long-term financial risks, in particular:

1. how the Trustee takes account of 'financially material considerations' over the appropriate time horizon, including, but not limited to, ESG factors, including climate change

2. the Trustee's policies, in relation to various stewardship activities for the assets held

3. the extent to which any non-financial matters are taken into account.

The regulations also seek to encourage trustees to take greater ownership and be aware of the consequences of their responsible investment policies, rather than adopting a 'box ticking' approach.

1.7.1 Strategic considerations

The strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Given the inherent uncertainty, the Trustee has not made explicit allowance for the risks of climate change in setting its strategic benchmark.

1.7.2 Selecting investment managers

Within active mandates, the Trustee has delegated responsibility for the consideration of stock-specific issues to its individual investment managers. The Trustee expects the managers to take into account all financially material factors in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

In passive mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and believes this approach is in line with the basis on which its current strategy has been set.

In selecting new investment managers for the Scheme, where relevant to the investment mandate, the Trustee explicitly considers potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision-making.

The Trustee meets with the Scheme's investment managers regularly, and the managers are expected to address manager performance and company engagement. Managers will be challenged on their approach if it is not aligned to the Trustee's policies.

The Trustee expects its investment adviser to provide input and analysis to assist the Trustee in assessing its managers' performance. Where necessary, the Trustee will highlight any areas of concern identified during such reviews to the manager as part of the engagement process and request that the manager takes appropriate action. This may include concerns over performance, risk management, stewardship practices, investment process and operational issues and, where such concerns are raised, the Trustee will require the manager to demonstrate levels of improvement. Failure to achieve the desired improvements will result in the mandate being reduced or terminated.

1.8 Consideration of non-financially material factors in investment arrangements

Given the objectives of the Scheme, the Trustee has not considered any non-financially material factors in the development and implementation of its investment strategy. The Trustee has not imposed any restrictions or exclusions to the investment arrangements based on factors that are not financially material.

1.9 Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers, and the monitoring of compliance with agreed policies.

1.9.1 Voting and engagement

The Trustee has adopted a policy of delegating voting decisions on stocks to its investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustee has reviewed the voting policies of its investment managers and determined that these policies are appropriate. On an annual basis, the Trustee will request that its investment managers provide details of any change in their house policy. Where appropriate, the Trustee will engage with and may seek further information from its investment managers on how portfolios may be affected by a particular issue.

The Trustee does not engage directly, but believe it is appropriate for its investment managers to engage with key stakeholders. These may include corporate management, regulators and governance bodies, on investment issues including managing conflicts of interest, improving corporate behaviours, improving performance and mitigating financial risks. Where necessary, investment managers are expected to notify the Trustee of any issue with which it may be beneficial for the Trustee to undertake further engagement. The Trustee will review engagement activity undertaken by its investment managers as part of its broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers, including consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee separately considers any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

1.9.2 Monitoring

Investment managers report on voting activity to the Trustee on a periodic basis. The Trustee will monitor investment managers' voting activity and may periodically review managers' voting patterns. The Trustee may also monitor investment managers' voting on particular companies or issues affecting more than one company.

The Trustee aims to meet with all its investment managers on a regular basis. The Trustee provides its managers with an agenda for discussion, including, where appropriate, ESG issues. Managers are challenged both directly by the Trustee and by its investment adviser on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects of returns from the portfolio.

1.10 Additional voluntary contributions

The Trustee gives members the opportunity to invest in a range of funds at each member's discretion. This facility is currently offered through Standard Life.

Signed for and on behalf of the Trustee of the University of Edinburgh Staff Benefits Scheme

Secretary	**Trustee**
Date	

Appendix – Manager Benchmark Summary

Mandate	Benchmark Description	Performance Target (% p.a.)
L&G Global Equity – All World Equity Index Fund	FTSE All World Index	Track benchmark
L&G Global Equity – RAFI Multi-Factor Climate Transition Equity Fund	RAFI Multi Factor Climate Transition Developed Index	Track benchmark
Morgan Stanley Private Equity – Private Markets Fund III-VII	MSCI AC World	No explicit target set
Adam Street Partners Private Equity – 2021 Global Fund	MSCI AC World	No explicit target set
Adam Street Partners Private Equity – Co-Investment Fund V	MSCI AC World	No explicit target set
LGIM Buy and Maintain Credit Fund	N/A	N/A
Threadneedle Property	MSCI /AREF UK All Balanced Quarterly Property Fund Index	To outperform benchmark
LGIM Property	N/A	Total return of 7-9% p.a. (net of fees) over the long term, with a net income yield of 4% p.a. once stabilised.
Barings Multi Asset Credit	3 Month SOFR +5%	As per benchmark description
Barings Private Debt – Global Private Loan Fund 3	N/A	Net $IRR of 7.5%-8.5% p.a.
Barings Private Debt – Global Private Loan Fund 4	N/A	Net $IRR of 7.5%-8.5% p.a.
LGIM Liability Driven Investment (LDI)	N/A	N/A