

# CERN PENSION FUND

**Statement of Investment Principles**



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# PURPOSE AND SCOPE

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The purpose of the Statement of Investment Principles (hereinafter referred to as the “SIP”) is to outline the principles governing the asset management process of the CERN Pension Fund (hereinafter referred to as the “Fund”).

The Fund’s investment processes, which are based on the provisions of this document, are detailed in a separate document, the Investment Guidelines. (The Investment Guidelines are intended for the Fund’s internal use only.)

## INVESTMENT APPROACH

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The Fund strives to maximise returns while remaining below a maximum level of allowable risk. The maximum level of allowable risk is referred to as the “risk limit”.

## INVESTMENT RETURN OBJECTIVE

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The Fund’s investment return objective is to meet or exceed the actuarial best estimate discount rate adjusted for Geneva inflation over the long term<sup>1</sup>. The achievability of the investment return objective is reviewed in the context of a long-term asset study conducted on a tri-annual basis, or more frequently if deemed necessary.

The Fund’s performance against its investment return objective is measured over a multi-year time horizon, typically five years.

<sup>1</sup> Best estimate assumptions are used in the Fund’s periodic actuarial reviews. These are assumptions that are the most likely to be borne out in practice i.e. there is a 50% chance of actual experience being more favourable and a 50% chance of actual experience being less favourable than assumed. The aggregate effect is that actuarial gains and losses should be equally likely in future years.

# INVESTMENT STRATEGY

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## RISK MEASURE AND RISK LIMIT

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The “risk measure” defines the metrics of the risk management process. It is used to quantify the risk of the Fund and to express the risk limit against which the risk of the Fund is compared. Given the consideration for tail events, the Fund opts for 5% Conditional Value at Risk (CVaR) on the asset return distribution. CVaR is also referred to as “expected shortfall”, “average value at risk” or “expected tail loss”.

The “risk limit” is set by taking into account, among other parameters, the investment return objective, the Fund’s liabilities, the Fund’s funding status, assumptions related to future cash flows, market conditions, inflation and the business cycle and any other relevant assumptions, including the assumptions used in the most recent periodical actuarial review.

The risk limit is reviewed on an annual basis, or more frequently if deemed necessary.

## STRATEGIC ASSET ALLOCATION

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The term “Asset allocation” refers to how the Fund’s assets are spread across different asset classes.

The “Strategic Asset Allocation” (hereinafter referred to as the “SAA”) is the Fund’s benchmark asset allocation and is compatible with the Fund’s investment return objective and risk limit. The SAA is based on risk/return projections and the Fund’s liquidity needs. It is reviewed on an annual basis, or more frequently if deemed necessary.

In implementing the SAA, the Fund takes into consideration the availability of adequate investment opportunities and liquidity conditions.

## DEVIATIONS FROM THE STRATEGIC ASSET ALLOCATION

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The Fund’s asset allocation might deviate from the SAA as a result of market movements. In these cases, a decision to realign the allocation with the SAA will depend on the short-term market forecasts and liquidity conditions.

Tactical deviations (i.e. intentional deviations based on short-term market forecasts and aimed at reducing the portfolio risk or capturing excess return) are allowed provided that the Fund always remains within the risk limit.

# RESPECTIVE ROLES OF THE PFGB, IC, CEO AND CIO IN THE INVESTMENT PROCESS

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The Pension Fund Governing Board (PFGB) approves:

- the SIP
- the investment guidelines
- the risk measure
- the risk limit
- the SAA

The Pension Fund Investment Committee (IC) recommends to the PFGB, on the proposal of the Chief Executive Officer (CEO), prepared by the Chief Investment Officer (CIO) as Head of the Investment Group:

- the SIP
- the investment guidelines
- the risk measure
- the risk limit
- the SAA

Under the supervision of the CEO, the CIO is responsible for the day-to-day implementation of the Fund's asset management process. As such, the CIO implements the SAA and decides on tactical deviations from the SAA.

The risk limit and the SAA are approved on an annual basis.

## ELIGIBLE INVESTMENTS

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Investments may be made directly (e.g. managed internally) or indirectly (e.g. managed externally via funds or investment agreements), in traditional or in alternative assets.

The list of eligible investments and any investment restrictions are set out in the Investment Guidelines.

## FEES

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The Fund strives to minimise investment management and administration fees, taking account of the importance of adequate incentive structures for the performance of the Fund.

These incentive structures are designed in such a way as to strike the optimum balance between the Fund's interests and those of the managers concerned.

# APPROACH TO RESPONSIBLE INVESTING

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The Fund established a policy that acknowledges the relevance of environmental, social and governance (ESG) value drivers to its ability to meet its fiduciary duties. The ESG Policy of the Fund is given in the Annex of this document.

## INDEPENDENT RISK MONITORING

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The Fund's risk is calculated and reported by an independent risk consultant on a monthly basis in order to allow compliance with the risk limit of the Fund to be monitored.

In addition, a process of continuous risk monitoring is established. The procedure to be implemented in the event of the Fund's risk exceeding the risk limit is defined in the Investment Guidelines.

## CONSIDERATION OF LIABILITIES

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The liability considerations used for the SAA and for risk modelling must be in line with the outcome of the latest periodic actuarial review performed by the Fund's Actuary.

## ASSET SAFEKEEPING

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The safekeeping of the Fund's assets is undertaken by the custodian(s) appointed by the PFGB on the proposal of the IC.

## INDEPENDENT PERFORMANCE REPORTING

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The Fund's investment performance is reported by an independent service provider. The performance measurement methodology is defined in the Investment Guidelines.

## STANDARDS OF CARE

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The members of the PFGB, IC and PFMU as well as all external service providers involved in the Fund's investment process are required to abide by the Fund's Code of Conduct (Annex D of the Fund's Rules).

# ACCESS AND REVIEW

This document is public. It is reviewed by the IC on an annual basis and, if necessary, updated by the PFGB on the proposal of the IC.

## ANNEX – ESG POLICY

The Fund acknowledges the relevance of environmental, social and governance (ESG) value drivers to its ability to meet its fiduciary duties.

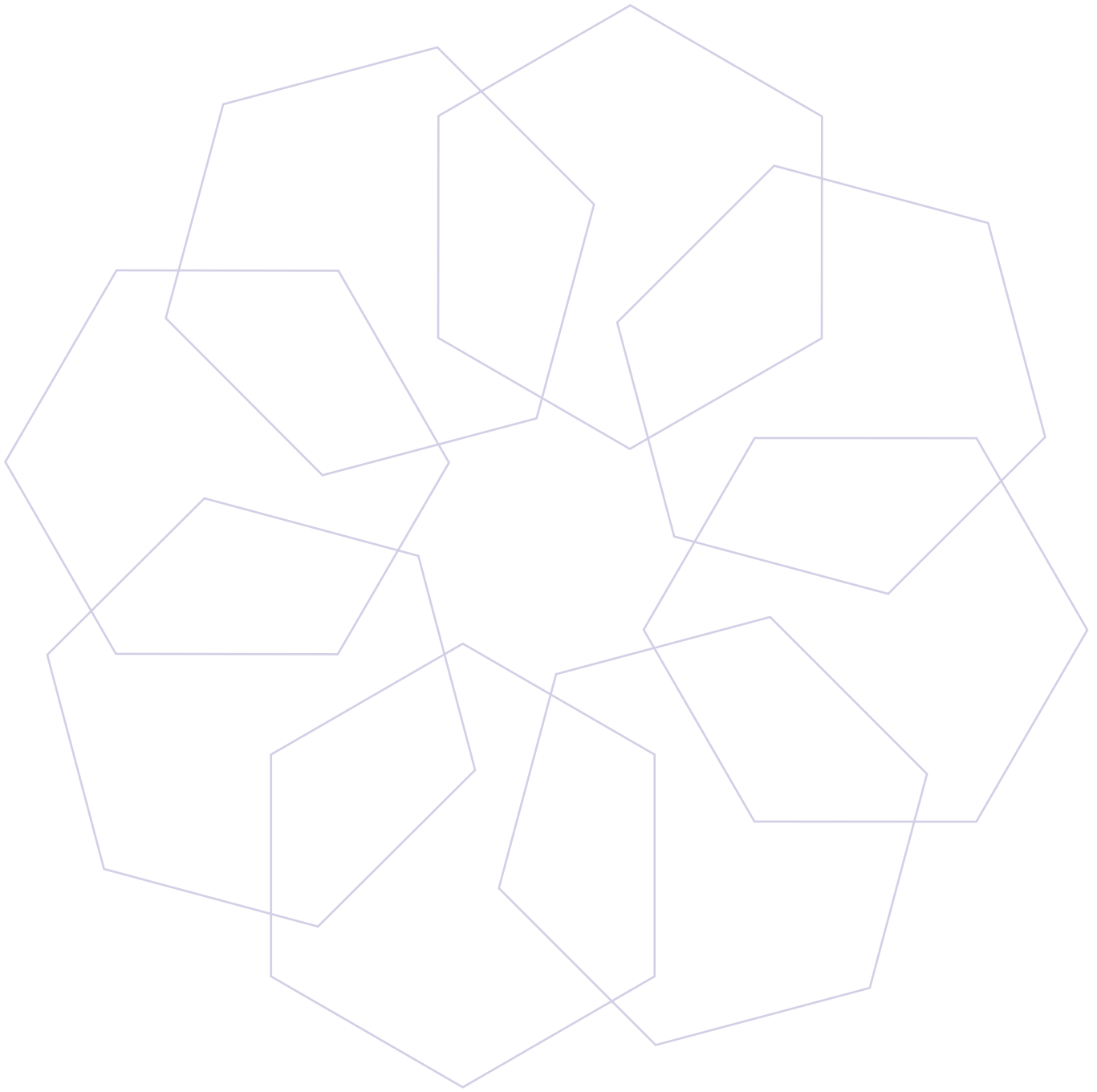
The Fund pursues its investment objectives by taking into consideration ESG risks and opportunities according to the following four pillars:

1. **Manage climate-related risk and opportunities** within the Task Force on Climate-related Financial Disclosure (TCFD) framework. Climate change, in particular, is expected to be a source of increased physical (e.g. climate events) and transition risks (e.g. tighter regulatory requirements, legal risks, stranded assets, social unrest),
2. **Develop an asset manager engagement framework** that promotes good governance, consideration of social factors and value-drivers, climate-aware risk management and ESG related disclosures,
3. **Adopt responsible ownership practices**, principally through collective engagement and proxy voting. While divestment may result in increased cost of capital for a company and act as an incentive for improvement, there is an argument that engagement can achieve the same ESG result coupled with financial benefits to the investors,
4. **Carry out regular reviews of the market to keep abreast of best practices and global regulatory trends.**

**Beyond its investment activities, the Fund is committed to maintaining its strong governance and to conducting its operations in a sustainable manner.**

The Pension Fund Management Unit, the Board and its Committees adhere to CERN-wide ESG-related initiatives and policies including code of ethics, travel and meetings, waste management and employee inclusion and diversity.

While the Fund views ESG factors as a key driver of share price stability and long-term investment performance, it acknowledges a certain number of implementation challenges such as inconsistent vendor data quality, incompleteness of corporate disclosure and difficulty of modelling future ESG-related outcomes based on historical patterns.



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