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CERN PENSION FUND

Statement of Investment Principles and Investment Policy

CERN PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES AND INVESTMENT POLICY

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1. PURPOSE AND SCOPE

The purpose of the Statement of Investment Principles and Investment Policy (hereinafter referred to as the “SIP”) is to outline the principles governing the investment policy 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 the investment guidelines.

2. INVESTMENT APPROACH

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

3. INVESTMENT RETURN OBJECTIVE

The aim of the Fund’s “investment return objective” is to meet or exceed a return objective of 3% above Geneva inflation over the long term. 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.

4. INVESTMENT STRATEGY

4.1 Risk Measure and Risk Limit

The “risk measure” and “risk limit” are 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.

4.2 Strategic Asset Allocation

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.

The SAA must always include all the asset classes needed to allow the Fund to weather different regimes of growth and inflation.

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

4.3 Deviations from the Strategic Asset Allocation

The Fund's asset allocation may deviate from the SAA solely as a result of market movements. Decision to realign the allocation with the SAA depends 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.

5. RESPECTIVE ROLES OF THE PFGB, PFIC AND PMC IN THE INVESTMENT PROCESS

a) The Pension Fund Governing Board (PFGB) approves:

- the SIP
- the risk measure
- the risk limit
- the investment return objective.

b) The Pension Fund Investment Committee (PFIC):

i) proposes to the PFGB for approval:

- the draft SIP
- the risk measure
- the risk limit
- the investment return objective.

ii) approves, on the proposal of the Portfolio Management Committee (PMC):

- the SAA
- the risk monitoring process
- the investment guidelines.

c) The PMC, which is part of Pension Fund Management Unit (PFMU), is composed of investment professionals and is chaired by the Head of the Investment Group. It is responsible for the day-to-day implementation of the Fund's investment policy on behalf of the Chief Executive Officer (CEO).

The PMC implements the SAA and decides on tactical deviations from the SAA.

6. ELIGIBLE INVESTMENTS

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.

7. FEES

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.

8. INDEPENDENT RISK MONITORING

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.

9. INDEPENDENT ACTUARIAL SOURCE

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.

10. ASSET SAFEKEEPING

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

11. INDEPENDENT PERFORMANCE REPORTING

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

12. STANDARDS OF CARE

The members of the PFGB, PFIC 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).

13. ACCESS AND REVIEW

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