

Gloucestershire Pension Fund

Investment Strategy Statement (March 2021)

Introduction and background

This is the Investment Strategy Statement (“ISS”) of the Gloucestershire Pension Fund (“the Fund”), which is administered by Gloucestershire County Council, (“the Administering Authority”). The Council has a duty to ensure that the Fund assets, not immediately required to pay pension benefits, are suitably invested and to take proper advice in the execution of this function. It has delegated this responsibility to the Funds Pensions Committee (“the Committee”).

The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”) and guidance issued from time to time by the Secretary of State. The ISS has been prepared by the Committee having taken advice from the actuary to the Fund, Hymans Robertson LLP and the Fund’s Independent Investment Advisor.

This ISS, which was approved by the Committee, is subject to periodic review at least every three years and without delay after any significant change in investment policy. In addition, an appendix is included which sets out the Committees Investment Beliefs. This is in line with the recommendations in the Stewardship Code 2020 produced by the Financial Reporting Council (FRC). It is the intention that these beliefs act as broad guidance for the Committee’s actions going forward.

The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (dated February 2020).

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death for their dependants, on a defined benefits basis. The funding position of the Fund will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature and cash flow requirements of the Fund's liabilities.

It is intended that the Fund's investment strategy and strategic asset allocation will be reviewed at least every three years following an actuarial revaluation of the Fund.

The Committee carried out a strategic asset allocation review and an asset liability modelling exercise in conjunction with the 2019 actuarial valuation of the Fund. A number of different contribution and investment strategies were modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Committee considered the chances of achieving their long-term funding target – maintaining a fully funded position into the future. They also considered the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors the investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability, given the Fund's level of funding and liability profile
- The level of expected risk
- The outlook for asset returns over the long term

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the agreed target allocation ranges. The allocations will be rebalanced back to within this target allocation range as necessary to control investment risk.

Investment of money in a wide variety of investments Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities; fixed interest and index linked bonds; cash; property; and loans, either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds, investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers advice from a suitably qualified person in undertaking such a review, this being the appointed Independent Advisor to the Gloucestershire Pension Fund. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification benefit.

The conclusions of the asset allocation review conducted in 2020 were that the Fund could afford to take a modestly lower level of investment risk and still achieve the required rate of return as forecast by the actuary. As a result, the overall target allocation to equities has been reduced. The target allocation to fixed interest (bonds) has also been reduced due to the low level of current bond yields and the low level of forecast investment returns. There have been increases in the target allocations to, international property; infrastructure; private equity and private debt. These asset classes have similar long-term return forecasts to equities but should provide greater diversification and hence lower the investment risk within the Fund. Due to the illiquid nature of some of the assets the Fund will be investing in, this move will take a number of years to complete.

The new target investment strategy is set out below.

Allocation by investment category

Investment Category	Strategic Asset Allocation to 31 March 2020	Target Strategic Asset Allocation from 1 April 2020	Target Strategic Asset Allocation Range from 1 April 2020
Equities	58.5%	55.0%	52% to 58%
Alternatives	17.0%	23.0%	21% to 25%
Fixed Interest	24.5%	22.0%	20% to 24%
Total	100.0%	100.0%	100%

As at February 2020, the forecast return on the target portfolio over the long-term was 4.8% p.a. with an expected annual volatility of the funding level of 9.1%. This volatility includes an assumed diversification benefit. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Restrictions on investment

In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and a rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore, it is not felt necessary to set additional restrictions on investments.

Once the Committee has set the strategic asset allocation for the Fund, after seeking appropriate investment advice, it sets benchmarks for each asset class which reflect the risk and return profile which the Fund is looking to access so that, in aggregate, they are consistent with the overall asset allocation for the Fund.

The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. Passive management (where the portfolio directly reflects the composition of the benchmark), is used where the Committee do not believe an active manager is able to add value in this asset class or where there is a desire to dampen the investment risk in that asset class.

The individual managers and their benchmarks are as follows:

Asset Class	Benchmark	Strategic Asset Allocation to 31 March 2020	Target Strategic Asset Allocation from 1 April 2020	Target Asset Allocation Range from 1 April 2020
Equities		58.5%	55.0%	52.0% to 58.0%
UK Active Equities	FTSE All Share	13.0%	12.0%	10.0% to 14.0%
Global High Alpha	MSCI World	14.0%	13.0%	11.0% to 15.0%
Emerging Market	MSCI Emerging Markets	7.0%	6.5%	5.0% to 8.0%
Sustainable	MSCI World	2.0%	10.0%	8.0% to 12.0%
Low Carbon	MSCI World	2.0%	4.0%	3.0% to 5.0%
Smart Beta	MSCI World	9.5%	9.5%	8.0% to 11.0%

Fixed Interest			22.0%	20.0% to 24.0%
UK Investment Grade	Iboxx UK Corporate Bonds	17.0%	14.5%	13.0% to 16.0%
Multi Asset Credit	Cash +2%	7.5%	7.5%	6.5% to 8.5%
Alternatives			23.0%	21.0% to 25
Diversified Returns	Cash +5%	4.0%	0.0%	0.0% to 10%
Property	IPD UK Balanced	7.5%	10.0%	8.0% to 12.0%
Infrastructure		1.0%	5.0%	4.0% to 6.0%
Private Equity		1.0%	3.0%	2.0% to 4.0%
Private Debt		3.5%	5.0%	4.0% to 6.0%
Venture Capital		0.0%	0.0%	0.0% to 0.5%
Cash		0.0%	0.0%	0.0% to 0.5%
Total		100.0%	100.0%	100%

The intention is to move to the Target Strategic Benchmark in stages as market conditions allow and commitments to the Alternative Asset Classes are drawn. A high allocation to Diversified Returns will be made to hold a proportion of the cash awaiting drawdown into the alternative asset classes, hence the wide 0-10% range for this asset class.

The approach to risk, including the ways in which risks are to be measured and managed

The Gloucestershire Pension Fund Committee is aware that the Fund has a need to take investment risk to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. The principal risks affecting the Fund are set out below, as is the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting its liabilities.

- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund 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 the Fund’s liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund after considering the most recent actuarial data from the 2019 actuarial review. This data will be updated in 2022. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee monitors Demographic changes by using detailed mortality analysis provided by the Funds actuaries during each triennial actuarial review.

The Committee seeks to mitigate systemic risk through a diversified portfolio of assets and by employing a number of asset managers. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

Investment risks

- Concentration - The risk that a 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 Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund’s strategic asset allocation benchmark includes a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from this target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk.

The Fund monitors its cashflow requirements and any necessary generation of income from its assets to meet current and future pension payments. The cash flow forecasts are formally updated as part of the triennial actuarial review. The Fund invests in a range of assets, both liquid (quoted equities and bonds) and less liquid (infrastructure, Private Debt etc). The Committee monitors its need for liquidity and aims to hold cash to cover 6 months of forecast drawdowns of its commitments into the alternative asset classes and the use of the Diversified Returns allocation will manage the Funds medium to long-term cash requirements for these commitments.

The Fund invests in a range of overseas markets which provides an exposure to a diversified range of currencies; the Committee also assess the Fund's currency risk during their risk analysis. A proportion of the currency risk relating to the Fund's overseas equity investments is hedged back to Sterling either through investment in currency hedged fund units within the Fund's Global Equity mandates, or via a strategic currency hedge solution. At the strategic level, the intention is to hedge back to Sterling 100% of fixed interest assets and approximately 50% of Equity assets via the major currencies where this is cost efficient. The actual level of currency hedging will be kept under review by the Committee and its advisers on an ongoing basis.

Details of the Fund's approach to managing ESG risks is set out later in this Investment Strategy Statement.

The Committee believes in working with asset managers over the long-term which allows the asset manager to invest over the long-term, and the Committee monitors them on this basis. The diversification by manager and long-term nature of the investment process adopted by the asset managers reduces the probability of a single asset manager underperforming to the extent that it affects the Funds ability to meet its liabilities in a significant way. Under the advent of pooling the selection and monitoring of asset managers is undertaken by the Brunel Pension Partnership (Brunel) who are resourced to complete this function. Nonetheless the Committee will continue to hold both Brunel and the underlying managers to account as necessary.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Gloucestershire Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd (Brunel). Brunel is wholly owned by the Administering Authorities of these ten member Funds and is authorised by

the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme.

The pool has been created in order to achieve greater economies of scale within asset management, increase resources focused on the selection and monitoring of asset managers, provide thought leadership in Responsible Investment and EGS areas, imbedding these into the selection of asset managers and investments, and deliver cost savings to the Fund. The Fund's intention is to invest its assets through the Brunel pool as and when suitable investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government.

The key criteria for assessment of Pool solutions will be as follows:

- 1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- 2 That there is financial benefit to the Fund in investing in the solution offered by the Pool.

At the end of 2020 all of the Fund's listed equity exposures are being managed by Brunel, as well as the property exposure. The fixed interest allocations will transition in 2021 and all future alternative asset allocations are now being committed to the Brunel portfolios.. At the time of preparing this statement, the Fund has the following legacy assets under its management: :

- Two small closed end fixed life venture capital funds. These funds will mature over the next few years and repay their proceeds to the Fund.
- Two Private Debt funds, both of which are closed ended. These funds will mature over the next few years and repay their proceeds to the Fund.

The Gloucestershire fund is a client of Brunel and as a client has the right to expect certain standards and quality of service. A detailed service agreement has been signed which sets out the duties and responsibilities of Brunel, and the rights of the Gloucestershire Fund as a client. It includes a duty of care on Brunel to act in its clients' interests. Each client has an appointed Shareholder and an Oversight Board and Client Group have been established by Brunel. They are comprised of representatives from each of the Administering Authorities including Gloucestershire.

These have been set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, they will, together with the nominated Shareholders, have responsibility for ensuring that Brunel delivers the services required to achieve investment pooling. The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension

Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. The Committee is aware that the Ministry for Housing, Communities and Local Government is currently engaged in a further consultation regarding the mechanisms for pooling and the Fund will take any updated recommendations and advice into account when issued. Gloucestershire County Council has approved the full business case for the Brunel Pension Partnership.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

The Committee consider the Fund's approach to responsible investment in two key areas:

- Responsible investment, including climate change – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and encouraging its investment managers to engage with investee company management as part of the investment process.

Responsible investment, including Climate Change

As a Pension Fund, with pension obligations stretching out many years into the future, the Fund, by its nature, is a long-term investor. The authority recognises that investing responsibly over the long-term must include the consideration of not just financial data but also of the impact of the Fund's investments in terms of the environment, effects on broader society and corporate governance (ESG issues). The Fund, through Brunel, has appointed asset managers who invest for the long term and explicitly consider ESG issues as an integral part of their research effort when investing the Fund's assets.

The Fund also expects to vote, where practical, on all Annual and Extraordinary general meetings held by companies in which it is invested, via the Brunel Pension Partnership. The Fund will not seek to exclude investments that are not barred by UK law in the belief that engagement is preferable to divestment. Whilst there is obvious risk in investing in companies with material ESG issues, there can be long-term financial gain where such companies are actively attempting to manage and improve these risks, and as such the Fund adopts a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance future returns to investors, and believes this is more compatible with its fiduciary responsibility and more supportive of its long term investment goals.

If a company fails to engage on these issues with the Brunel Pension Partnership and with the Fund's asset managers, or if the BPP and/or asset managers have reason to believe a company is not being honest and open about its intended actions in this area, divestment on a stock by stock basis remains an option.

The Fund will work with like-minded investors within the BPP to promote best practice in the long-term stewardship of investments.

Brunel's Investment Principles clearly articulate the commitment of each Fund in the Partnership and its operator (Brunel Company), to be responsible investors and as such recognise that social, environment and corporate governance considerations are a key part of the processes in the selection, non-selection, retention and realisation of managers and underlying assets. One of the principal benefits, outlined in the Brunel business case, achieved through scale and resources arising from pooling, is this improved implementation of responsible investment and stewardship. Every portfolio, in every asset class, under the Brunel, explicitly includes responsible investment and includes an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives. More information is available on the Brunel Pension Partnership website.

Climate Change

The Brunel Pension Partnership's 2020-2022 climate change policy objectives

The Gloucestershire Pension Committee fully encourages and supports the BPP's 2020-2022 policy objectives on climate change which are set out in their Climate Change Policy. These are laid out below.

Brunel's 2020-2022 policy objectives

We will play an active and leading role in encouraging policy makers to establish comprehensive and robust climate change policy frameworks. Within this, we will focus particular attention on:

- The adoption of a meaningful price on carbon, which is material (i.e. sufficient to drive change at the scale and rate required); progressive over time and widespread (i.e. applies to all major sectors of the economy).
- The removal of fossil fuel subsidies.
- The introduction of policy measures – for example, product standards, limitations on high carbon technologies, support for low carbon technologies – that accelerate the move away from high impact activities and sectors.
- The removal or correction of regulatory barriers to progress and support financial policy makers and regulators in being ambitious and effective in implementation of plans to mitigate climate risk and under the Adaptation Reporting Power.

- The integration of climate change into the mandates and into the oversight and control processes of prudential regulators and other regulatory bodies.
- Ensuring that climate change policy is socially sustainable and takes due account of workers' rights and community interests (the 'Just Transition') when taking action to reduce greenhouse gas emissions and adapt to a changing climate.

We will play an active leading role in encouraging policy makers to integrate climate change into multilateral and bilateral trading frameworks, with a particular focus on the UK post Brexit.

We will encourage policy makers to introduce mandatory climate change disclosure requirements for companies, with a focus on providing clear, decision useful information and encouraging a clear articulation of the risks that companies and their investors face.

We will support the development of skills, knowledge and professional standards of those intermediaries who are critical influencers in the action of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors.

Further details of Brunel's Climate Change policy are set out on its website <https://www.brunelpensionpartnership.org/>.

Monitoring and Reporting Progress

Reporting on climate change is an area that is rapidly developing, and we are working with Brunel and other member funds to continue to improve this. We are supportive of Brunel's involvement in initiatives, such as the Institutional Investors Group on Climate Change ("IIGCC") Paris Aligned Investment Initiative, that are working to allow asset owners and investment managers to explain, in a consistent and comparable manner, how their portfolios compare to the goals of a net zero carbon future and of keeping global temperature rise below 2°C.

2022 stocktake and ongoing improvements

The Gloucestershire Pension Fund is currently supportive of Brunel's approach of not issuing exclusion lists as we believe that simply stating exclusions or requiring divestment from specific stocks or sectors will not compel investment managers to develop their capacity on climate change or drive change in the companies in which they are invested.

Alongside Brunel and our partner funds, we will be undertaking a full review of our climate change policy approach in late 2022 to provide us with the opportunity to reflect on our progress, the effectiveness of our approach, and to raise our ambitions (ahead of the triennial strategy review).

One of the key questions that will be addressed as part of this review is whether Brunel's decision to engage with investment managers has been effective. Specifically, whether it has been effective in delivering change in the way investment managers work and in their ongoing engagement with companies to drive improvements in corporate strategies on climate change, so that these companies are on a trajectory to be aligned with the transition to a 2°C economy. If the answer is no, we will be expecting Brunel to consider whether they need to change investment managers and/or introduce selective divestment requirements for companies.

We will continue to monitor Brunel's progress on implementing its policy objectives and will work with them to achieve our collective climate change ambitions. If the Fund does not feel action is progressing at an appropriate pace, the Fund will seek to address this with the partnership.

Stewardship

The Committee believes one of the potential benefits of pooling, achieved through the scale and resources arising from pooling, is the improved implementation of stewardship practices. Brunel has published its Responsible Investment Stewardship Policy which outlines its approach and priorities.

The policy reflects the priorities of its underlying clients, and we were active in contributing to the policy.

With the support of the Gloucestershire Pension Fund and the other partner funds, Brunel has been using its influence to press for improved stewardship at external investment managers and has been actively involved in government consultations and other initiatives in the area. Once all equity assets have been transitioned, the Partnership and Brunel Ltd will seek to deliver best practice standards in responsible investment and stewardship in terms of company engagement as outlined in the Brunel Pension Partnership Investment Principles. More information is available on the website (www.brunelpensionpartnership.org).

The Committee has delegated investment powers to Brunel and the Fund's investment managers (where assets have not yet transitioned to Brunel) to act in the best interests of the Fund. Brunel and the Fund's investment managers are encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in key areas. Brunel and the Fund's investment managers have been asked to report to the Committee on the implementation of their stewardship and engagement activities, which will be reviewed on a regular basis.

Officers of the Fund have been involved in the Responsible Investment sub-group and discuss ESG and responsible investment matters regularly. A representative from Brunel is also present at the majority of Committee meetings and can report back on these activities.

The Fund recognises the importance of collaboration with other investors to achieve more effective and wider reaching outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum (“LAPFF”) which aims to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

2020 UK Stewardship Code:

In late 2019, the Financial Reporting Council (“FRC”) published its revised 2020 UK Stewardship Code (“2020 Code”). The latest Code defines stewardship as “the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”

The FRC has described the 2020 Code as ambitious and highlighted the increased focus on ‘activities and outcomes’ as opposed to policy statements alone. As part of this increased remit, the 2020 Code covers a wider range of asset classes, requires signatories to consider the systematic integration of ESG and climate change in the stewardship and investment process, and is based on a more stringent ‘comply and explain’ basis.

The Committee will be reviewing its policy towards becoming a signatory to the Stewardship Code 2020 as published by the Financial Reporting Council. In relation to the asset classes where the UK Stewardship Code is relevant, our Fund Managers are signatories.

The Committee expects both the Brunel pool and any directly appointed fund managers to comply with the Stewardship Code 2020 and this is monitored on an annual basis. Through Brunel the Fund is affiliated with Institutional Investors Group on Climate Change (IIGCC); Share Action; The Task Force on Climate Related Financial Disclosures (TCFD); the UK Sustainable Investment and Finance Association (UKSIF) and Climate Action 100. We continue to explore opportunities to enhance our stewardship activities.

Voting

The Committee has delegated the exercise of voting rights to Brunel and the Fund’s investment managers (where assets have not yet transitioned to Brunel) on the basis that voting power will be exercised with the objective of preserving and enhancing long-term shareholder value.

As part of owning publicly listed companies Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). Brunel aims to vote 100% of all available votes. To provide guidance to its managers, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts. Hermes EOS has been appointed to support Brunel as its engagement and voting service provider. Brunel will publish its voting

policy and provide online voting records at least annually. The Fund will publish the voting carried out on its behalf on its website.

Investment managers have produced written guidelines of their process and practice in this regard. They are encouraged to vote in line with their guidelines, in respect of all resolutions, at annual and extraordinary general meetings of companies. Investment managers are expected to report on their voting activity on a regular basis.

Appendix – Investment Beliefs

The Committee believes that

- It is important that funding related aspects and, in particular, funding level and cash flow profile feed into investment strategy decisions. Given this, actuarial and investment matters are looked at in tandem by the Committee, most notably when setting the investment strategy.
- The Committee targets a strong funding level to provide some buffer to the risk of future employer contribution increases. This and knowledge of the future cash flow profile of the Fund enables the Committee to adopt a long-term investment horizon. This enables the Fund to accept short term volatility in investment returns or the illiquidity of some assets, in order to achieve higher investment returns. In this context, the Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular, government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.
- Strategic asset allocation is a key determinant of investment risk and return, and thus is typically more important than manager or stock selection which going forward will be delegated to the LGPS pool to which the Fund is a member. In addition, the Committee believes that periodic rebalancing of asset class weightings back to their strategic benchmark can add value over the long term.
- Risk can be mitigated through the diversification of the portfolio, by selecting a variety of both asset classes and managers. A balance needs to be struck between the need for diversification and keeping a small enough number of mandates to ensure good governance.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors. Active management can add value over time but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management may be preferred, but brings some of its own risks. In all cases, managers will be judged on net returns calculated after fees. It is one of the roles of the Investment Committee to monitor investment costs and challenge where necessary.
- A strong ESG / RI policy is required by regulation and should be seen within the context of the Fund's long-term investment and futureproofing its financial security. ESG considerations can help identify superior long-term investments and the Committee requires its managers to include them as an integral part of their investment processes, provided these considerations do not detrimentally impact

financial returns or risk. The Fund requires managers to report back on them on all ESG matters.

- The Committee believe that controlling climate change will impact all investment decisions going forward and, therefore, require their investment managers to adopt a policy of engaging with investee companies to improve their behaviour in all areas but particularly regarding climate change, The committee believes that engagement with investee companies rather than exclusion, is the best approach to achieve material change and is more compatible with their fiduciary duty and more supportive of their long-term investment goals. However, where investee companies are not taking sufficient action or are not prepared to engage in good faith on these issues, we believe this is likely to impact future returns and expect our managers to act accordingly.
- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability add value to the Fund. The Committee believes in appointing good investment managers with which to work in partnership, delegates authority to them, and monitors their performance (on financial and other metrics) regularly. The Committee also believes that taking independent advice, notably in investment and actuarial matters, can strengthen governance, and add value to the Fund.

March 2021