Policy on social, environmental and corporate governance considerations

42. Social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments. Nonfinancial factors may be considered to the extent that they are not significantly detrimental to the investment return and the Committee is satisfied that members share their concerns.

43. It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to ESG in two key areas:
    a. Sustainable investment / Environmental and social factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
    b. Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process. The Committee supports the Stewardship Code and intends to become a signatory.

44. In combination these two matters are often referred to as 'Responsible Investment', or 'RI' and this is the preferred terminology of the fund. Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term. The Committee takes RI matters seriously and will not appoint any manager unless they can show evidence that RI considerations are an integral part of their investment decision-making processes. Following appointment managers are required to report any changes in their approach to RI to Officers.

45. A strategy of engagement with companies, rather than negative screening to exclude stocks from the portfolio on ESG/ethical grounds, is more compatible with the administering authority's fiduciary duties and supports responsible investment.

Policy on the exercise of the rights (including voting rights) attaching to investments

46. Membership of the Local Authority Pension Fund Forum (LAPFF) helps Nottinghamshire Pension Fund to engage with companies to understand issues and to promote best practice. LAPFF was set up in 1990 and is a voluntary association of the majority of Local Authority pension funds based in the UK with combined assets of over £200bn. It exists to protect the long term investment interest of local authority pension funds, and to maximise their influence as shareholders by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

47. The Committee believes that voting is integral part of the responsible investment and stewardship process. The Fund manages its ownership responsibilities through both its partnership with Pensions & Investment Research Consultants Ltd (PIRC) and via its investment managers. PIRC is Europe's largest independent corporate governance and shareholder advisory consultancy. PIRC exercises all the Fund's voting rights in line with the PIRC proxy voting guidelines.

48. PIRC reports quarterly on its voting activity and these reports are available to Committee Members and the membership through the website. The availability of this information is stated in the Annual Report.

Assessment of the suitability of investments

49. The policy of the Fund will be to treat the equity allocation as a block aimed at maximising the financial returns to the funds (and thus minimising employers' contributions) consistent with an acceptable level of risk. The block of Bonds, Property and Cash is aimed at lowering overall risk (at the cost of anticipated lower return).

50. The Trustees have agreed an allocation to private equity and infrastructure. ~~This will be effected principally through fund of funds arrangements to increase diversification and reduce risk.~~ The allocation is based on *committed* amounts and, owing to the nature of these funds, the actual net investment level will be significantly lower. New investments will be made over time to target a commitment level of 10% of the Fund (within an allocation range up to 15% to allow for movements in market value).

51. Investments, such as private equity and infrastructure that fall outside the high level asset classes, will be included within the most appropriate class for reporting purposes and assessed against the relevant part of the strategic benchmark.

52. Cash will be managed and invested on the Fund's behalf by the County Council in line with its treasury management policy. The policy is to invest surplus funds prudently, giving priority to security and liquidity rather than yield. If losses occur, however, the Fund will bear its share of those losses.

53. Pension fund cash is separately identified ~~each day~~ in a named account and specific investment decisions will be made on any surplus cash identified, based on the estimated cash flow requirements of the Fund. As the majority of cash is allocated to individual investment managers and may be called by them for investment at short notice, it is expected that the majority of cash will be placed on call or on short-term fixed deposits. Unallocated balances may be placed directly with the Fund's custodian.

~~54. Joint investments using a combination of Fund cash and County Council cash may be made where this is in the best interests of the Fund. In considering such investments, guidance issued by the Department for Communities and Local Government will be followed and the Fund will receive its fair share of interest in proportion to the share of cash invested.~~

54. Other asset classes, such as hedge funds and currency, will be reviewed as part of the regular asset allocation strategy review and, if a decision to invest in other assets is made, the Investment Strategy Statement will be revised accordingly.

Statement of Investment beliefs

55. The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

Financial Market Beliefs

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors.
- In making investments in illiquid assets, a return premium should be sought.

- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.

Investment Strategy/Process Beliefs

Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy. Risk should be viewed both qualitatively and quantitatively.

Particular focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Equities are expected to generate superior long-term returns relative to Government bonds.
- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- 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 is preferred.
- Operational, counterparty and reputational risk need assessment and management, in addition to investment risk.
- Managing fees and costs matter especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

Responsible Investment Beliefs

- Effective management of financially material ESG risks should support the Fund's requirement to protect returns over the long term.
- Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.