APPENDIX 1 – Investment Strategy Statement (ISS) extracts

The Pension Fund Investment Strategy Statement is published on our website. Members will be aware of the following paragraphs which are particularly relevant to this issue:-

25 In setting asset allocation to deliver the Fund Return Target the Fund will seek as far as possible to invest in a diversified range of uncorrelated assets in order to reduce the level of investment risk.

29 The risks the Fund is exposed to include investment, operational, governance, currency, demographic and funding risks. These risks are identified, measured, monitored and then managed. This is carried out using risk registers with section responsibility and oversight from the Head of Governance and Chief Risk Officer. Plans are put in place to mitigate these risks so far as that is possible.

42 Social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments. Non-financial 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.

46 The Fund has articulated an investment belief on the relevance of climate change for financial markets (see Appendix A). In line with this belief, the Fund will actively look for investments which can be expected to benefit as a result of the long-term impacts of climate change.

ISS Appendix A - Statement of Investment Beliefs

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

   Financial market beliefs

   - Return is related to risk but taking calculated risks does not guarantee returns. The actual outcome may be higher or lower than that expected.
   - The Fund has a long-term investment horizon and is able to invest in volatile and/or illiquid investment classes in order to generate higher returns.
   - Markets are dynamic and are not always efficient, and therefore offer opportunities for investors.
   - Diversification is a key technique available to institutional investors for improving risk-adjusted returns.

   Investment strategy/process beliefs

   - 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, 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.

Organisational beliefs

- Clear investment objectives are essential.
- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- The Pension Fund Committee's fiduciary duty is to the members of the Pension Fund. While they are not trustees, they have trustee-like responsibilities.

Responsible investment beliefs

- Responsible investment is supportive of risk-adjusted returns over the long term, across all asset classes. As a long-term investor, the Fund should seek to invest in assets with sustainable business models across all asset classes.
- Responsible investment should be integrated into the investment processes of the Fund, the Pool, and underlying investment managers.
- A strategy of engagement rather than exclusion is more compatible with fiduciary duty, and is more supportive of responsible investment.
- Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There is risk but also opportunity in holding companies which have weak governance of financially material ESG issues. Opportunities can be captured so long as decisions are based on sufficient evidence and they are aligned with the Fund's objectives and strategy.
- Climate change and the response of policy makers has the potential to have a serious impact on financial markets. Engagement, using partnerships of like-minded investors where feasible, can mitigate this risk.