Westmorland & Furness Council

Cumbria Pension Fund

Cumbria Pension Fund

Investment Strategy Statement

15 September 2026

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1. Introduction

1.1 Westmorland and Furness Council is the Administering Authority ("the AA") responsible for maintaining and managing the Cumbria Local Government Pension Scheme ("Cumbria Pension Fund" or the "Fund"). The Fund is part of the Local Government Pension Scheme in England & Wales ("the Scheme").

1.2 The AA is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate administering authority under LGPS regulations.

1.3 The responsibilities of all individuals and parties responsible for the management of the Fund's Investment Strategy and the Terms of Reference and functions of these in full can be found in the Fund's **Governance Strategy** which is published on the Fund's website, www.cumbriapensionfund.org.

1.4 The ISS was formulated under the Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026, which revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations"). The Investment Strategy complies with the requirements contained in regulation 11 of The Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026 and guidance issued by the Secretary of State (under 10(2)(b)).

1.5 The Cumbria Pensions Committee ('the Committee') acts on the delegated authority of the Administering Authority.

1.6 The Fund participates with a number of other administering authorities to pool its investment assets through the Border to Coast Pensions Partnership ("the Pool"). The Pool is authorised and regulated by the Financial Conduct Authority (FRN 800511) and is owned equally by all the administering authorities that participate in the pool.

1.7 The Committee recognises that the regulatory framework is new and the way the Fund complies with it continues to evolve. The Committee therefore considers this Investment Strategy Statement to be drafted on a best endeavours basis using the information currently available and acknowledges that updates may be required as the position develops and further work is undertaken.

1.8 The ISS was approved by the Committee on 26 June 2026 as draft for employer consultation and last reviewed on 15 September 2026. As per the Regulations, this ISS will be updated by 30 September 2029. Further details of which are set out in Section 5.

1.9 The Investment Strategy Statement (ISS) outlines the Fund's investment strategy, and how the investment risk and return issues are managed relative to the Fund's investment objectives. It should be read in conjunction with the Funding Strategy Statement (FSS) which sets out how solvency risks are managed with regard to the underlying pension liabilities. The ISS is consistent with the Funding Strategy Statement (FSS) dated 1 April 2026 published on the Fund's website under 'Fund Policies' at: www.cumbriapensionfund.org/forms-publications.

2 Investment Objectives

2.1 Overall Approach to Investment

The Fund has adopted a prudent, risk aware investment strategy, which is kept continually under review. Asset allocation decisions are taken in the best long-term interest of Fund employers and member beneficiaries.

The Fund's Statement of Investment Beliefs are incorporated into this policy and the overarching objective is to manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the Fund.

In line with the above overall objective, the Fund will invest money in a wide variety of investments, having assessed the suitability of particular investments; the investment objectives, the impact of different economic scenarios on achieving required returns, and the resulting diversity across the whole Fund.

The Fund has a Responsible Investment Policy which informs its approach to investments through the Investment Strategy and is an appendix to this document.

Prior to any such decisions being made the Fund will take appropriate advice***.***

2.2 Investment Beliefs

The overarching objective is to manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the Cumbria Pension Fund, to pay pensions as and when they fall due.

The investment strategy should be determined by reference to these beliefs, and the assets, liabilities and our risk tolerances:

- The long-term primary goal is to generate returns required to fund members' current and future pensions.
- The Fund's aim is to maintain as stable and low a rate of overall employer contributions as is possible, whilst maintaining the solvency of the Fund and its long term cost efficiency.

1. **Asset allocation has the greatest impact on the overall risk and return of the Fund**
   - The Fund will have a broadly diversified portfolio of investments to reduce the volatility of asset returns and limit non market specific risk. Diversification is one of our key mitigations to risk and to ensure funding stability.
   - The Fund liabilities are in sterling and as a global investor we may use hedging or hedged products, where practicable, to ensure that a proportion of the Fund's investments are sterling denominated or hedged to sterling.
   - The Fund is responsible for setting the high-level objectives, asset allocation and the ranges for each asset class, e.g. stocks, bonds and private assets etc.
   - The Pool are responsible for the identification of investment opportunities.
   - Over the long-term equities are expected to deliver a higher return than bonds albeit with a greater degree of risk and therefore volatility.
   - Differences between actual and strategic asset allocation positions should be minimised by the use of cashflow and regular pragmatic rebalancing to minimise transaction costs.

2. **The Fund's pooling partner is Border to Coast Pensions Partnership ("BCPP") and in line with the Regulations, all Fund assets are managed through the Pool with the exception of operational cash.**
    - BCPP is our pooling investment manager and we will transition the Fund's investments to them.
    - Our investment strategy will aim to reflect the sub-funds offered, managed or being developed by BCPP.
    - We will aim to support BCPP in developing new sub-funds to ensure the Fund's requirements are met, and to achieve cost savings through economies of scale whilst generating the net returns required to pay members' current and future pensions.
    - The Fund will monitor the investment performance of BCPP and will engage in the Pool governance process alongside our own governance processes.

3. **It is important to take a long-term perspective when considering the investment strategy, but recognise the implications of shorter-term market volatility**
    - The greatest risk to the fund is not short-term market volatility but the permanent loss of value.
    - Long-term strategic discipline should be maintained.
    - Benchmarks should be used as an independent measure of performance.

4. **All investments have a degree of financial risk, but the Fund should only accept additional financial risk where there is a strong belief that the Fund will be rewarded for it.**
    - Passive management (allowing investments to track indices rather than 'actively' choosing individual investments) provides the most cost effective means of gaining broad exposure to an asset class, however it is only available in listed (public) markets.
    - Active management may deliver superior risk adjusted returns over time on a net of fees basis in certain markets and asset classes.
    - Costs matter and need to be managed and controlled however cost alone should not drive decision-making – the key financial consideration is return net of fees and costs.

5. **There are multiple risks to which the Fund is exposed and those risks that are not sufficiently compensated should be mitigated, managed or avoided if possible.**
    - The Fund should be rewarded for giving up liquidity.
    - The Fund should retain sufficient liquidity to meet pensions payments and other short-term requirements and allow for market volatility. A proportion of our investments will be held in liquid assets which can easily be sold.
    - Investment risks are multi-faceted and will change over time.
    - The Fund should be wary of investments where the promised return appears out of proportion to the apparent risk.
    - The Fund should have an understanding of the factors expected to drive performance prior to investing.

6. **As long-term investors, the Fund believes that integrating environmental, social and corporate governance ("ESG") considerations into the investment management process improves risk adjusted returns.**
    - The Fund believes that ESG factors, such as climate change, can have a material impact on the risk profile and value of financial assets in the long term.
    - It is noted that the UK Government has a commitment to achieve net zero by 2050 and that is supported as a Fund.

- The Fund notes that our primary investment manager (BCPP) is committed to achieving net-zero on their investment portfolios by 2050 or sooner, recognising that achievement of this is linked to central government ambitions.
- It is recognised that scheme employers may have their own specific net- zero targets and aims but the fiduciary duty requires the Fund's investment decisions to be in the interest of all scheme members and employers.
- The Fund considers that being a responsible investor and incorporating ESG factors into investment decisions helps improve the long-term risk adjusted returns for investors but we do not believe that making investment decisions solely on non-financial grounds (e.g. ethical considerations) meets the Fund's overarching primary fiduciary duty.
- The Fund believes that the best way to be a responsible investor and to influence policy change is not through divestment in the first instance but to influence through active engagement and encourage continuous improvement in respect of progress towards the ESG ambitions of the Fund.
- All investment managers should consider progress on shareholder engagement in their decision to continue to invest or divest in a company.
- The Fund expects management teams and Boards of Directors to be responsive to their shareholders.
- The Fund will lead by example by being an active shareholder and, where appropriate, utilising the scale of collaboration with other LGPS Funds.

2.3 Investment Preferences

The investment strategy seeks to:

- Set the level of risk aligned to the long-term objectives, with a view to taking appropriate and not unnecessary levels of risk and managing funding level volatility.
- Manage investment risk through a strong focus on integrating responsible investment into decision-making to enhance long-term outcomes and reduce exposure to sustainability-related risks.
- Manage specific concentration risks within listed markets, ensuring that exposure to individual issuers, sectors, regions, or styles is appropriately diversified and aligned with the overall risk tolerance of the portfolio.
- Reduce costs where possible, through efficient portfolio construction, careful manager selection, appropriate use of market exposures, and ongoing scrutiny of fees and expenses to optimise net returns.

2.4 Investment Strategy Review

A review of investment strategy will be undertaken following each actuarial valuation with an updated ISS produced within 18 months of the valuation date. The investment strategy (including the core investment objectives and asset allocations) is set to meet long-term prevailing market conditions and address any short term cashflow requirements. Interim reviews may be undertaken to ensure that the investment strategy remains appropriate. Any review of the investment strategy is mindful of the Fund's approach to responsible investment as detailed within its Responsible Investment Policy.

The Fund will operate a Fund-specific investment strategy which reflects the circumstances of the Fund. Therefore, it is not always appropriate to compare the Fund directly with external

comparators. Nevertheless, regard will be paid to them over the longer term to ensure the Fund's performance remains comparative to similar funds.

2.5 Investment Objectives

The investment objectives as stated in the aims of the Fund in the Funding Strategy Statement are:

- For the Fund to achieve and maintain a funding level of at least 100% in the long-term. This target will be reviewed following each triennial actuarial valuation.

- To achieve an investment return which exceeds the actuary's long term assumptions, whilst also:
    - Having regard to the desirability of enabling employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the scheduled, resolution and admitted bodies;

    - Maximising the returns from investments within reasonable risk parameters taking into account the above.

To achieve the overall objective, Cumbria Pension Fund has set the following:

Area	**Objective**
Investment Return	For the 2025 valuation, to have a modelled expected long-term return that exceeds the discount rate of 2.75% p.a. above CPI inflation (past service) and 2.25% p.a. above CPI inflation (future service), i.e. 5.35% p.a. (past) on a best estimate basis (50%/50%) and 4.85% p.a. (future) on a more prudent (75%) basis over the long term.
Risk	To have a modelled 3-year 95% funding level Value-at-Risk (VaR) relative to the asset value limited to less than 33% (on the past service discount rate basis).
Cashflow	To manage the cashflow position of the Fund in the most efficient manner taking into account the size and timing of cash inflow and outflow. The Fund will work with the Pool to manage the operational delivery and investment of cashflow in a timely manner. The Fund is estimated to be in a cashflow negative position of c £66m p.a. / 2% of assets p.a. which takes into account the contribution income, expected benefit outflow, expenses and other expected cashflows, before investment asset income. The Fund also has cashflow from distributions and drawdowns within the asset portfolio as a result of the strategic allocations to private market assets. The Pool is expected to manage these cashflows as they occur in an efficient manner.
Liquidity	Seek to limit investment in illiquid assets to no more than 40% of total assets. Where illiquid assets are defined as those that can't be ordinarily liquidated within six months.

2.6 Link to Funding Requirements and Overall Approach to Risk

The high level objectives are consistent with the funding strategy as set out in the Funding Strategy Statement.

The primary risk to the Fund is that its assets are insufficient to meet its liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates and affordability. Given the long-term nature of the Fund's liabilities, the Pensions Committee has appetite to take investment risk in a controlled manner.

The Fund acknowledges the need to take an appropriate level of investment risk to ensure the affordability and sustainability of the Fund. However, the level of risk will be set which is aligned to the long-term objectives, with a view to taking appropriate and not unnecessary levels of risk and managing funding level volatility.

The Fund is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. One of the Fund's overarching beliefs is to only take as much investment risk as is necessary.

The Fund acknowledges that the level of risk taken over the long term will impact the level of contributions from the employers. If too much risk is taken, this could result in a material and sustained decrease in the funding level which would put pressure on employers to increase contributions. Conversely, if too little risk is taken, this could also result in a decrease in the funding level as the asset fail to keep pace with the liabilities, which again could result in employers needing to increase contributions. The Fund therefore takes a balanced and controlled approach to managing investment risk.

2.7 Evaluation of risks

Risk is inherent in any investment or operational activity and the Fund recognises that it has a need to take risk (e.g. investing in return-seeking assets) to help it achieve its funding objectives. It is also recognised that, whilst increasing risk may increase potential returns over the long-term, it also increases the risk of more short-term volatility in the funding position. The Fund therefore seeks to achieve a balance between seeking to deliver its target returns and minimising overall portfolio risk rather than try to eliminate it.

The Pensions Committee has determined that the Fund's appetite for risk is conservative, based on delivering long-term stable returns in line with prudently set actuarial targets. The Committee believes that a key tool in achieving this is investing in a well-diversified portfolio, taking into account the consideration of local, national and international risks.

The operational responsibility for managing and monitoring the risks lies with the investment pool. While the Fund articulates the risk appetite and strategic principles within the ISS, it is for the Pool, as the entity undertaking investment activity, to implement appropriate risk management frameworks, controls, and reporting processes. This ensures that risk oversight remains aligned with the Fund's objectives while leveraging the Pool's expertise and regulatory obligations in managing investment risks effectively.

Evaluation of risks that may impact the investment strategy and expected future returns is crucial in determining the appropriate measures to mitigate those risks. The principal investment risks affecting the Fund and that influence our Investment Objectives and we ask the Pool to consider when providing Investment Strategy advice are:

- **Valuation (volatility) risk:** the actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, e.g. due to unexpected increases in

inflation, changes to interest rates, market cycle or Environmental, Social and Governance (ESG) factors, such as climate change. Key mitigations in relation to this risk include:

- The inflation-linked discount funding basis;
- Investing in a diverse portfolio of investments;
- Being a responsible owner, incorporating ESG considerations, such as climate change into investment decisions by minimising the risk of stranded assets and the financial impact of regulatory change (this is detailed further in the Responsible Investment Policy at Appendix 1); and
- Setting performance and/or risk targets for investments to avoid undue risk.

- **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. The Fund seeks to mitigate this through investing in a diversified portfolio of assets. This risk is also managed through a review of the Fund's Investment Strategy every three to five years and interim reviews undertaken as required.

- **Inflation:** The Fund's liabilities are impacted by inflation both explicitly and implicitly. The Fund will seek to invest in a range of assets that target returns in excess of inflation and in some cases provide an inflation-linked income, subject to a tolerable level of volatility. The Fund's Investment Strategy incorporates approximately 35% of assets whose returns have some link with inflation.

- **Illiquidity:** The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. The Fund is long term in nature and can therefore afford to lock up capital for longer in return for the premium it offers. However, it is also recognised that, as the Fund's membership matures, there is a risk that the Fund will turn cashflow negative after investment income. To mitigate this risk, the investment income is expected to be sufficient to pay pension benefits in the medium-term. The Fund also undertakes shorter-term cashflow planning, monitoring and management throughout the year.

- **Foreign exchange risk**: The risk of reduction in value arising from exchange rate movements of foreign currencies: The Fund mitigates this through hedging income producing assets, and the passive listed equity portfolio, where practical and possible. The use of active management also helps to manage this risk; maintaining unhedged listed equity exposure provides some protection during extreme market falls.

- **Responsible Investment ('RI'):** The risk that by not considering ESG and associated risks the Fund's ability to generate long-term returns will be negatively impacted.

The operational responsibility for managing the above risks is delegated to the Pool.

- **Changing demographics:** The risk that longevity improves, and other demographic factors change, increasing the cost of Fund benefits. The key mitigation in relation to this risk is detailed consideration of long-term demographic trends (at both local and national level) as part of the actuarial valuation process which is currently conducted at least triennially.

- **Governance:** members of the Committee and Local Pension Board participate in regular training delivered through a formally agreed training plan and a training policy. Both the Committee and Local Pension Board are aware that poor governance, and in particular high turnover of members, may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible. The Local Pension Board and external and internal audit assist the Pensions Committee in the governance process.

3 Strategic Asset Allocation

3.1 Formulating the Strategic Asset Allocation

The primary purpose of the Fund when setting our investment strategy is to achieve the long-term returns needed to pay pensions when due, and in order to do so, set an investment strategy that has regard to the timing and value of expected pension payments.

The Fund has formulated the Strategic Asset Allocation after receiving advice.

The Strategic Asset Allocation is designed to have a high likelihood of achieving the risk and return objectives set out in section 2.

3.2 Strategic Asset Allocation

The Fund will hold a range of asset classes as set out in the table below. These will be reviewed periodically in light of market conditions. As is appropriate all asset classes and products will be kept under regular review.

In addition to considering the benefits of individual products and asset classes, consideration will be given to how the inclusion affects the overall risk/return characteristics of the total portfolio. Before strategic asset allocation decisions are made by the Pensions Committee, professional advice will be sought.

An in-depth review of Investment Strategy was undertaken following the completion of the 2025 actuarial valuation. The revised investment strategy was approved by Pensions Committee in June 2026 as shown below.

In-line with the Regulations, the Fund's target investment strategy is set out below in Table 1 as well as tolerance ranges for each asset class.

The Strategic Asset Allocation set out below has been determined by the Fund, with certain elements, where delegated, derived by the Company in accordance with the Fund's agreed objectives and governance arrangements.

Asset Class	**Interim SAA (%)**	**Long-term SAA (%)**	**Tolerance Range**
Listed Equity	35%	35%	30-40%
Private Equity	8%	8%	4-12%
Private Credit	8%	8%	6-11%
Property/Real Estate	7%	3%	2-9%
Infrastructure	15%	15%	10-17%
Other alternatives[1]	1%	2%	0-5%
Credit[2]	10%	15%	5-20%
UK Government Bonds	15%	13%	11-18%
Cash[3]	1%	1%	0-4%
Total		**100%**	**-**

[1]Other alternatives are investments which do not fit into the other asset classes.

[2]Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds.

[3]Refers to total cash as part of the SAA (investment plus operational). The management of operational cash outside the pool remains the responsibility of the administering authority, and the pool will be informed of the levels of operational cash required to meet liabilities.

3.3 Connected Entities

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 the Authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007. The current strategy has no such investments.

4 Local Investment

4.1 Local Investment

It is a new requirement in the Regulations that the Fund must articulate a 'high-level objective on local investments, including a target range for those investments as a proportion of the total value of the pension fund. This should include objectives regarding returns, target area and desired impact'. The Fund makes the following statements about its initial approach but is cognisant that it will be developing its local investment approach further as both the opportunities and the Cumbria Mayoral Authority become more established in coming years.

The primary purpose of Fund's investment strategy is to ensure that the Fund's assets, together with contributions, can pay members' pensions as they fall due. Within this, the Fund has a shared ambition with its stakeholders to deliver sustainable futures. Where suitable returns can be achieved at acceptable risk levels, the Fund may seek local investment opportunities that also contribute to positive economic, social or environmental outcomes.

The Fund's local investments will be made primarily through private market opportunities - including but not limited to housing, commercial and public property, infrastructure, and financing of businesses. Local investment is not an allocation in itself and will represent a portion of main asset class allocations.

The Fund is minded to invest within the range of 0 - 1% of its total assets under management in local investments expected to be achieved over a 6 to 8 year period. This is subject to availability of suitable opportunities and the Fund's funding position supporting the associated risk profile.

There is a preference for investments to be within the Cumbria Pension Fund locality, or to be within the wider Northern England area by joining with other partner funds in the Pool, when there is benefit of doing so. The Fund does not target specific investment types or impacts with its local investment, but leaves the widest possible opportunity set to find the best risk-adjusted returns.

Local investments may have distinct characteristics, including longer development timelines, different performance patterns, and varying liquidity profiles. Key financial targets will be considered over a long-term horizon and will include a return and risk expectation consistent with comparable assets in the Fund's overall investment strategy. Local opportunities will be assessed and implemented through the Pool, which will conduct detailed due diligence, make final investment decisions, execute investments, and provide ongoing financial and impact reporting. Only opportunities meeting the criteria will progress to detailed assessment.

Once in place, the Fund will engage with the future Cumbria Mayoral Authority to understand the local growth priorities including those articulated in the Local Growth Plans.

4.2 Target Allocation

The Fund's target range is 0 - 1% of the Fund's total invested assets.

4.3 Target Area

The preferred target area for the Fund's Local Investment allocation is Cumbria.

4.4 Target Returns and Risk

The asset classes are expected to include (but not be limited to) housing, commercial and public property, infrastructure, and financing of businesses. Targets will be considered over a long-term horizon and will include a return and risk expectation consistent with comparable assets in the Fund's overall investment strategy.

4.5 Target Impact

The preferred target impact is the promotion of beneficial economic, social and environmental impacts in the Cumbria geographic area.

4.6 Implementation of Local Investment

The responsibility for implementing Local Investment lies with the Pool. In implementing the Fund's high-level objective specified in regulation 11(1)(f), the relevant asset pool company must give proper consideration to local investment opportunities [and projects], including those identified and developed in accordance with regulation 17(1).

The ability of the Pool to fully implement our Local Investment Target and Preferences is subject to the Pool being able to accommodate these without running counter to the fundamental aims of pooling and will be dependent on the investment opportunities available.

5 Approval and Review

5.1 In formulating this Investment Strategy Statement, we have consulted:

- those Scheme employers, or members of the Scheme, in respect of which the authority is the appropriate administering authority under Part 2 of Schedule 3 to the 2013 Regulations(a),
- any person specified in guidance issued by the Secretary of State from time to time,
- and any person that the authority considers that it ought to consult as to the proposed contents of its investment strategy.

5.2 The views of the Cumbria Local Pension Board, and other parties who it considers may have an interest, have been taken into account when drafting the ISS.

5.3 This Investment Strategy Statement was approved by the Pensions Committee.

The ISS will be formally reviewed from time to time and within 18 months of each valuation date. The Fund will carry out a review of its investment strategy and, if necessary, revise the strategy, and publish a statement of the strategy as revised within the 18-month timeframe.