

## 4. INVESTMENT STRATEGY STATEMENT (ISS)

### **4 INVESTMENT STRATEGY STATEMENT**

#### **4.1 Introduction**

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require an Administering Authority to prepare, maintain and publish an Investment Strategy Statement (ISS). The aim of the ISS being to formulate a policy for the investment of its Fund money, which must be in accordance with guidance issued by the Secretary of State.

The Regulations require that the ISS must be reviewed and, if necessary, be revised at least every 3 years and a statement of any revisions published. Following an in-depth review of Investment Strategy (undertaken in conjunction with the 2019 triennial valuation) the strategy, including a new target asset allocation, was approved by the Pensions Committee on 13th December 2019. This was revisited in light of the COVID-19 pandemic during the summer of 2020 and early 2021, to review and consider further changes in response to the impact of the pandemic on investment market conditions and expected returns. The Investment Strategy Statement was updated to reflect the current strategy, approved by Pensions Committee on 14th March 2023.

The next in-depth review of Investment Strategy will be undertaken during 2023/24 by Westmorland & Furness Council as the new administering authority. The Investment Strategy Review will take into consideration the key outcomes of the 2022 triennial valuation and their implications going forwards, and that the strategy must be sufficiently flexible to meet longer term prevailing market conditions and address any short-term cash flow requirements. Any suggested revisions to the Fund's strategy, including the core investment objectives and target asset allocation, will then be approved by the Pensions Committee.

The Investment Strategy Statement (ISS) outlines the Fund's investment strategy, and how the investment risk and return issues have been 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 will be managed with regard to the underlying pension liabilities.

The Administering Authority has consulted with appropriate persons in preparing the ISS (such as investment advisors and the actuary) and taken and acted on any advice received. The Pensions Committee agrees to ensure the ISS will be kept under review and updated when necessary, but as a minimum reviewed annually and published in the Annual Report.

The Authority will invest in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund. Any deviations from the agreed strategy will be reported to the Pensions Committee, the Pension Board and the Director of Resources (S151 Officer) so that appropriate corrective actions can be undertaken.

The ISS covers the following:

- Background (4.2)

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- Approach to investment (4.3)
- Types of investments and limits (4.4)
- Approach to risk (4.5)
- Approach to pooling (4.6)
- Policy on responsible investing (including climate change), stewardship and corporate governance (4.7)
- Policy on exercise of rights (4.8)
- Compliance of Cumbria Fund with the Updated Myners Principles (4.9)
- Cumbria LGPS Investment Beliefs (Annex A)

### 4.2 Background

The Cumbria Pensions Committee is delegated to exercise Westmorland and Furness Council's responsibility as Administering Authority for the management of Cumbria Local Government Pension Scheme ("Cumbria Pension Fund" or the "Fund"). The Terms of Reference are set out in the Fund's Governance Policy and include approving the investment strategy for the Pension Fund.

#### 4.2.1 Cumbria Pensions Investment Sub Group (ISG)

The Pensions Committee shall establish a Pensions Investment Sub Group (ISG). The working group have an advisory role; its purpose is to assist the Committee by:

- Carrying out investment asset class monitoring; i.e. monitoring investment performance and the progress of the implementation of the Cumbria Pension Fund's Investment Strategy.
- Providing an update report to Pensions Committee outlining investment performance during the preceding period, and escalating any matters of concern or for further consideration to the Pensions Committee.
- Where appropriate to giving initial consideration to investment opportunities prior to their being considered by Pensions Committee.

#### 4.2.2 The investment objectives of the Fund

- The long-term objective is for the Fund to achieve and maintain a funding level of 100% over an average recovery period of 10 years from April 2023. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.
- The investment objective is to achieve an investment return to match the actuary's long term assumptions for future service of CPI+2.00% per annum and past service of CPI+1.25% per annum over a twelve year period from April 2020. This gives a combined minimum required return of CPI +1.75% per annum.

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- The Fund will target an outperformance of this over 10 years, within a diversified portfolio to stabilise returns and reduce volatility throughout the period. On advice from the ISG the outperformance target will be reviewed periodically by the Committee.
- The actuarial funding target is reviewed after periodic actuarial valuations and consultation with Fund employers and may undergo a partial or full review at other times should circumstances warrant it.
- The Fund expects to gain 0.6% to 0.7% per annum (net of fees) over the Fund's customised benchmark from active management, over a market cycle.

### 4.3 Approach to investment

The Pensions Committee is charged with the responsibility for the governance and stewardship of the Fund. The Fund has adopted a prudent, risk aware investment strategy, which is kept continually under review through an annual evaluation of the Funding Strategy. Asset allocation decisions are taken in the best long term interest of Fund employers and member beneficiaries.

The Fund's Statement of Investment Beliefs is included at **Annex A** to 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 total Fund returns, and the resulting diversity across the whole Fund.

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

#### 4.3.1 **Strategy Review**

A full Strategic Investment Review will normally be undertaken by the Fund every three to five years by specialist professional advisors. The investment strategy (including the core investment objectives and asset allocations) will be sufficiently flexible to meet longer term prevailing market conditions and address any short term cashflow requirements. Interim reviews may be undertaken to ensure that the Strategy remains appropriate.

#### 4.3.2 **The Strategic Benchmark**

The Fund will operate a fund-specific benchmark for the investment portfolio, with long-term allocations to the various investment asset classes, which reflect the circumstances of the Fund. As the Fund has adopted a fund-specific benchmark, it is not appropriate to compare the Fund directly with external

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comparators. Nevertheless, regard will be paid to them over the longer term to ensure the Fund's targets and actual returns remain comparative to other similar funds.

### 4.4 Types of investments and limits

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

In addition to considering the benefits of individual products and asset classes for introduction into the strategy, consideration will be given to how the inclusion affects the overall risk/return characteristics of the total portfolio. Before any investment decisions are made by the Pensions Committee, full professional advice will be sought. If there are any instances where advice received is not to be acted upon, full reporting to both the Committee and the Pension Board will occur.

The Fund will set and publish targeted strategic asset allocation, the advisory ranges, and the maximum percentage of the total value of all investments of fund money that can be invested in particular classes of investment.

Following an in-depth review of Investment Strategy (undertaken in conjunction with the 2019 triennial valuation) the strategy, including a new target asset allocation, was approved by the Pensions Committee on 13th December 2019. The target strategy was revisited in early 2021 in response to the impact of the COVID-19 pandemic on investment market conditions and expected returns, with the refinements made approved by Pensions Committee on 16th March 2021. The target asset allocation ranges (from March 2023) are shown below.

Asset/Investment	Targeted Strategic Asset Allocation %	Advisory Range	Limit (maximum %)
Public Equity	35%	22 – 45%	50%
Private Equity	7%	4 – 12%	17%
Infrastructure equity	12%	6 – 18%	22%
Commercial property	8%	6 – 12%	19%
Residential property	2%	0 – 4%	8%
Multi Asset Credit	5%	3 – 18%	20%
Private Debt / Credit	14%	3 – 18%	20%
Government Index-Linked Bonds	16%	13 – 22%	30%
Strategic Cash	1%	0 – 4%	10%
	100%		

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The transition to move to the target strategic asset allocation is expected to take a number of years, given the time required to deploy capital into private markets, and the investment allocation as at 31 December 2022 has made good progress towards the long term strategic target.

The Fund has agreed a set of interim allocations – as set out in the table below – which aim to provide a good benchmark for future progress in implementing the Fund’s long term investment allocation in a stepped manner. Having these interim allocations in place will allow the ISG to carry out their responsibility for implementing tactical changes, including the establishment and review of performance benchmarks and targets for investments.

Asset	Actual at Dec 2022 %	Interim aim (from 1/10/22) %	Target long-term aim %	Advisory Range	Limit maximum %
Public Market Equity					
- UK Equity	4.7%	4.5%	4.5%		
- Overseas Developed	4.7%	4.5%	4.5%		
- Active Global Equity	20.8%	20%	20%		
- Passive World Equity	5.3%	6%	6%		
Public Equity total	35.5%	35%	35%	22 - 45%	50%
Private Markets					
- Infrastructure	13.4%	12%	12%	6 – 18%	22%
- Private Equity	9.9%	7%	7%	4 – 12%	17%
- Private Debt	6.8%	7%	14%	3 – 18%	20%
Multi-Asset Credit	11.5%	12%	5%	3 – 18%	20%
Property	8.1%	9%	10%	6 – 12%	19%
Index-Linked Gilts	13.7%	16%	16%	13 – 22%	30%
Strategic cash	1.1%	2%	1%	0 – 4%	10%
	100.0%	100.0%	100.0%		

No more than 5% of the Fund will be invested in entities which are connected with the Administering 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.

### 4.5 Approach to Risk

#### 4.5.1 Risk Management and reporting

Risk management is the process by which the Administering Authority systematically identifies, addresses and reports the risks associated with its Pension Fund activities; it is a key element of good governance for any organisation.

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Officers of the Fund maintain a Cumbria LGPS risk register (details of the format of the register and the methodology for measurement of risk can be found in the Internal Control & Risk Management Policy). This is a dynamic document, which is reviewed at every Pensions Committee and Pension Board meeting. It incorporates details of the major risks facing the Fund and includes a traffic light scoring system to categorise the anticipated likelihood and impact of each risk. Members are charged with actively monitoring progress in relation to controls and actions taken to mitigate risk. Between meetings should any major risk emerge, this will be escalated by Fund Officers immediately to the Chair, Vice Chair and Director of Resources (S151 Officer).

### 4.5.2 Appetite for Risk

Risk is inherent in any investment or operational activity and the Committee 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 by controlling 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, including:

- **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 CPI, 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 CPI linked discount funding basis.
  - The Fund's Investment Strategy is expected to incorporate approximately 31% of assets linked to inflation.
  - Investing in a diverse portfolio of investments;
  - Responsible Investment; the Fund is committed to being a responsible owner and believes that responsible investment, incorporating ESG considerations, such as climate change into investment decisions, can help to improve the long term value for investors e.g. by minimising the risk of stranded assets and the financial impact of regulatory change; and
  - Setting manager performance targets to avoid undue exposure to risk.

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- **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.
- **Concentration risk:** 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 managed through the review of the Fund's Investment Strategy which is undertaken in full every three to five years with interim reviews undertaken as required.
- **Liquidity risk** (not having monies available to make pension payments to members as they fall due): The Committee recognises that 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 membership matures, there is a risk that the Fund will turn cashflow negative after investment income. To mitigate this risk the Fund undertakes cashflow planning, monitoring and management throughout the year and works closely with the Fund's investment advisors and actuary to consider the options to address any potential cashflow implications.
- **Foreign exchange risk:** (the risk of loss arising from exchange rate movements of foreign currencies) – The Fund seeks to mitigate this through investing in a diversified portfolio of assets, using active management, maintaining an unhedged listed equity exposure (to provide diversification during extreme markets movement) and to hedge other assets where practical and possible.
- **Governance:** members of the Committee and Local Pension Board participate in regular training delivered through a formally agreed training plan. 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.
- **Counterparty risk:** Counterparty risk exists in all external transactions undertaken by the Fund. The Fund seeks to mitigate this risk through the use of reputable service providers who operate effective controls. Key tools in this process are the involvement of Independent Advisors, robust procurement and ongoing contract monitoring and management.

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### 4.6 Approach to Pooling

#### 4.6.1 The Fund's chosen investment pool

In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG" – now the Ministry of Housing, Communities and Local Government or "MHCLG") in November 2015, Cumbria County Council elected to become a shareholder in Border to Coast Pensions Partnership Ltd (BCPP). BCPP is an FCA-regulated Operator and Alternative Investment Fund Manager ("AIFM"), being operational from June 2018.

BCPP is a partnership of the following funds:

- Bedfordshire Pension Fund
- Cumbria LGPS
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund\*
- Warwickshire Pension Fund

\* Regulations relating to the merger of the Northumberland Pension Fund into the Tyne and Wear Pension Fund (two of the original partners in BCPP) were laid before Parliament on 14th May 2020 and came into force on 3rd June with the merger being back dated to 1st April 2020. The merger had been anticipated for some time.

#### 4.6.2 The Fund's approach to pooling

BCPP has been created by like-minded funds, its guiding principles include:

- One fund one vote, regardless of size, all Funds will be treated equally;
- Equitable sharing of costs (where possible);
- Funds retaining governance role and ownership of asset allocation;
- Providing internal management capability; and
- Generating improved net of fees risk-adjusted performance.

The aim of pooling assets for the Partner Funds is to maximise the long-term net of fees investment returns attributable to each of the Partner Funds. All Partner Funds accept that if savings are to be achieved, changes will be required through the rationalisation and standardisation of processes.

There is clear segregation between duties undertaken by the Fund and duties undertaken by the BCPP. The Fund retains the decision-making powers regarding investment strategy and asset allocation, and delegates the

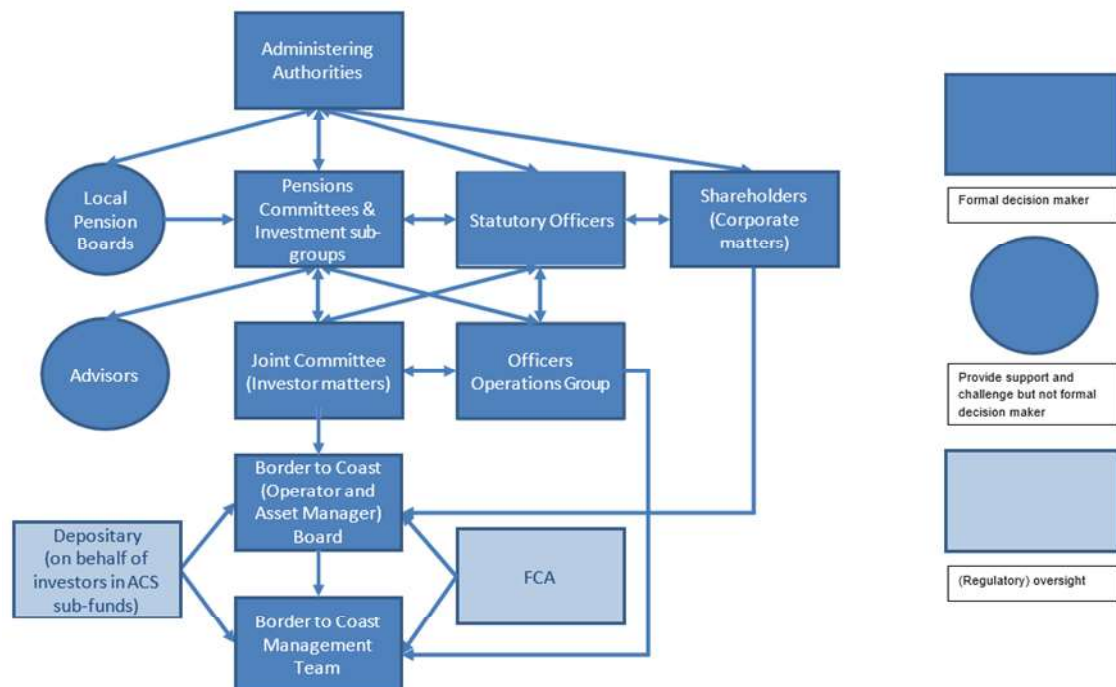


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investment management function to BCPP. This ensures that the fiduciary duty and democratic responsibility of the Fund can be maintained, whilst facilitating the delivery of cost benefits and the expanded professionalisation of the investment functions through scale.

BCPP has an internal team of investment managers, in addition to appointing external managers. Its role is to independently and professionally deliver Partner Funds asset allocation choices. It makes decisions relating to and monitors the investment managers (including employees of the BCPP Pool) who manage the administering authorities' "fund money".

The diagram below details the governance structure of BCPP and how it interacts with the various governance arrangements within the Partner Funds and key external entities:



Cumbria LGPS holds BCPP to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP.
- A representative on the Joint Committee who will monitor and oversee the investment operations of BCPP.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.
- The Fund will monitor and regularly review the investment performance of the assets under BCPP's management, seeking explanation and attendance of BCPP personnel at meetings where necessary.

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Further details of the Governance of BCPP can be found in the BCPP Governance Charter:

<https://www.bordertocoast.org.uk/app/uploads/2021/09/Governance-Charter-2021.pdf>.

### 4.6.3 Assets to be invested with the Pool

The Fund's intention is to invest its actively managed assets through the BCPP pool as and when suitable investment solutions become available. The key criteria for assessment of Pool solutions will be as follows:

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

At 31 December 2022 investments of £1.3 billion (representing approximately 44% of the Fund in total) had been made in BCPP's UK Equity, Global equity, Overseas Developed Equity, Private Equity, Infrastructure, Multi-Asset Credit and Private Credit funds. In addition to this consideration was also being given to investing in the UK Property ("real estate") funds. The detailed parameters and objectives of other investment opportunities are continuing to be developed.

The Fund undertakes due diligence before and during the transition of assets to BCPP to ensure the interests of Cumbria LGPS are upheld.

The Fund is intending to retain the following assets outside of the BCPP pool:

- Passive investments with Legal and General. These are currently held through life policies and these will remain assets of the Fund. However, the Fund benefits from joint procurement arrangements with other partner funds and BCPP for these services. Monitoring of the manager continues to be carried out by the Fund.
- The Fund has investments in a number of closed end funds which invest in private markets. These include private equity, infrastructure and private debt investments. Each of the individual funds has a fixed life with all assets being returned to investors within a specified period. There is a risk that sales of these investments would only be possible at material discounts to net asset value. Therefore, the Committee believes that it is in the best interests of the Fund to retain these investments. It is anticipated that once these investments mature the proceeds will be reinvested into BCPP-held investments.
- The Fund also has a small number of investments in open-ended funds which invest in infrastructure and long-lease property. The Fund will

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explore the business case for transferring these assets to BCPP to determine if it is practical and cost effective to do so.

- The Fund is currently working with BCPP and Partner Funds to explore options for existing investments in direct UK property.

The Fund will perform a review of assets held outside the pool at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. This position was reviewed as part of the 2019 investment strategy review; and will be again in 2023.

### **4.7 Policy on Responsible Investing, Stewardship and Corporate Governance**

Responsible investing aims to incorporate environmental, social and governance (ESG) factors, including climate change, into investment decisions, to better manage risk and generate sustainable, long-term returns and is part of the investor's fiduciary duty.

The overriding objective of the Fund is to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. To do this it must deliver its stated risk adjusted performance targets. The Fund recognises that good stewardship, corporate governance and responsible investing are fundamental drivers in achieving these objectives.

Businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. As such the Fund is committed to being a responsible owner and believes that responsible investment, incorporating environmental, social and governance (ESG) factors (including climate change) into investment decisions, can help to improve the long-term value for investors.

The Committee recognises that ESG issues, such as climate change can have a material impact on the value of financial assets and ESG is therefore considered across all asset classes where, in the view of the manager, such considerations may add to the risk of comparative under-performance for example because of changes to the regulatory regime of an industry in which a particular company operates. Equally, where a manager has a view that a positive social, environmental and governance stance by a company will add to its relative performance, this would be an appropriate factor for the manager to take into account in stock selection.

The Fund believes that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement. The Fund would only disinvest if maintaining an investment negatively affected the Fund's duty to generate investment return. The Fund considers that, by exerting pressure as an investor, it can bring more influence

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on companies than it could by boycotting specific sectors from its investment strategy. Consequently, the Fund does not believe that it is appropriate to explicitly divest from any specific sector or invest in any specific sector solely on ESG issues.

Engagement is key in enabling administering authorities as long-term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of ESG issues.

Cumbria is a member of the Local Authority Pensions Fund Forum (LAPFF), a collaborative shareholder engagement group which brings together 86 local authority pension funds from across the UK with combined assets of approximately £350 billion, in addition six of the LGPS Pools have joined the forum. LAPFF seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on environmental, social and governance (ESG) issues (including climate change).

The Fund's commitment to responsible investment, corporate governance and stewardship is communicated by the Fund's Stewardship Report 2021/22, which focuses on activities and outcomes, it is available as part of the Annual Report and Accounts 2021/22 on the Fund's website at:

<https://www.cumbriapensionfund.org/media/4tuiqfwl/cumbria-lgps-2021-22-annual-report-final.pdf>

The report was submitted to the FRC in October 2022 and has been assessed as meeting the requirements of the FRC's UK Stewardship Code 2020<sup>3</sup> and Cumbria Local Government Pension Scheme is listed as a signatory to 'the Code' and can now utilise the following logo.



The Fund's 2021/22 Stewardship Report is included as **Appendix B** to this document and is also published as a standalone document on the Fund's website at:

<https://www.cumbriapensionfund.org/media/pnpbu2pw/clgps-stewardship-report-2021-22-final-new-logo.pdf>

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<sup>3</sup> The Financial Reporting Council's (FRC) UK Stewardship code 2020 sets high expectations on those investing pension fund monies. It seeks to set a clear benchmark for stewardship as the responsible allocation, management and oversight of assets to create long term value and lead to sustainable benefits for the economy, the environment and society.

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BCPP (the pooling company jointly owned by the Fund and 10 other Partner Funds which manages all of the Fund's actively managed listed equities in addition to some multi asset credit and alternative assets) also published a Responsible Investments and Stewardship report 2021/22:

<https://www.bordertocoast.org.uk/publication/responsible-investment-and-stewardship-report-2021-2022/>. BCPP also submitted their report in October 2022 and the report has been assessed as meeting the requirements of the FRC's UK Stewardship Code 2020. All other investment managers are also required to adhere to the UK Stewardship Code (or equivalent code in their regional jurisdiction).

BCPP became operational from July 2018 and all Partner Funds have committed to use the company to fulfil their obligations to pool LGPS assets. The Funds have therefore collaborated to create the BCPP Responsible Investment Policy to allow for the Pool to exercise collective shareholder voting rights effectively through leveraging the benefits of scale.

All Funds, including Cumbria, have agreed that their individual Responsible Investment policies will be broadly aligned to that of BCPP; this should not create material changes to any Fund's policy as the Funds are likeminded and the policy was created with reference to the partner fund's existing policies. The annual review of the BCPP policy is timed to allow the partner funds to both input into the review process and then allow for continued alignment to the individual Fund's policy. Further details of the BCPP Responsible Investment Policy can be found at:

<https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Responsible-Investment-Policy-2023-1.pdf>

In October 2022, BCPP also published a standalone Climate Change Policy, which details the approach that BCPP will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of the Partner Funds.

The informed use of votes, while not a legal duty, is a responsibility of the owners of companies (shareholders or ourselves as a Pension Fund) and as such is an implied fiduciary duty of pension fund trustees and investment managers to whom they may delegate this function. Members as "de-facto Trustees" have a duty to safeguard shareholder value and in this regard, there is an increasing body of evidence to suggest that a well governed company is more likely to deliver stronger long-term investment performance. See 4.8 for further details on the Policy regarding exercise of voting rights.

### 4.8 Policy on exercise of rights

The responsibility for the exercise of voting rights is currently delegated to the investment managers, however Cumbria LGPS has the opportunity to override votes if considered appropriate. Investment managers are expected to approach the subject of voting with the same care and attention as other

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matters which influence investment decisions. Voting should be undertaken where it is believed to be in the best interests of the Fund.

Where a resolution is put forward which is deemed to be controversial the manager should liaise with the authority as appropriate. Investment managers need not vote on routine issues.

- Actively managed listed equities: The Fund's investments in actively managed liquid equities are all held with BCPP (the pensions pooling company jointly owned by the Fund and 10 other Partner Funds). Details of the BCPP Corporate Governance and Voting Guidelines can be found at:  
<https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Corporate-Governance-Voting-Guidelines-2023.pdf>
- Passive listed equities: The structure of the Fund's investments in passive pooled indexed funds means that it cannot directly influence the social, environmental and governance policies and practices of the companies in which the pooled funds invest. The Members are satisfied that the Fund Managers Corporate Governance policy reflects the key principles of Responsible Investment, and ESG issues, including climate change. Details of Legal and General Investment Management's approach to Corporate Governance and responsible investment can be found at:  
[https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf)

The Fund's investment managers are required to report quarterly on their voting actions for every appropriate investment. Any responses received from companies concerned should also be reported. The Fund's investment managers should hold and make available to the Fund a full voting audit trail. The outcome of voting actions should also be shown if possible.

The Pensions Committee is kept informed on relevant corporate governance issues arising during the period. As part of the Annual Report there will be full disclosure of voting activity.

All investment managers are required to adhere to the UK Stewardship Code (or equivalent code in their regional jurisdiction).

### 4.8.1 Other rights

Responsibility for actioning any other rights within the portfolio is delegated to the investment managers, i.e. stock splits, rights, scrip dividends or other share entitlements. Investment managers are expected to approach this with the same care and attention as other matters which influence investment decisions and in the best financial interest of the Fund. Exercise of such discretions is reviewed during the manager engagement reviews.

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### 4.9 Compliance of Cumbria Fund with the Updated Myners Principles

Principle 1: Effective Decision Making	Not Compliant	Fully Compliant
<p>Administering authorities should ensure that</p> <ul style="list-style-type: none"> <li>• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</li> <li>• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.</li> </ul>		<p>✓</p> <p>✓</p>
<p>The Fund has a clear scheme of delegation and arrangements for provision of management and advice. Investment decision-making is undertaken either by the Pensions Committee or delegated to the Director of Resources (S151 Officer) in consultation with the Investment Sub Group; governance oversight of these processes is provided by the Local Pension Board.</p> <p>The Members of the Pensions Committee perform duties similar to private trustees and are elected councillors of Westmorland and Furness and Cumberland Councils, together with employee representatives. The Members' Allowance Scheme operates for the remuneration of the elected councillors on the Pensions Committee. Two independent Investment Advisors normally attend Pensions Committee meetings.</p> <p>The dedicated Investment Sub Group has an advisory role, it's purpose is to assist the Committee by carrying out investment asset class monitoring, reporting investment matters to the Committee and where appropriate giving initial consideration to investment opportunities prior to their consideration by Committee.</p> <p>The Group comprises four Members of the Pensions Committee (nominated by the Committee), the two independent advisors to the Pensions Committee and the Chief Finance Officer (S151 Officer) or (deputy in their absence).</p> <p>The Pensions Committee have their skills and experience developed through training events, external seminars and fund manager presentations on a regular basis.</p> <p>The Fund has a team of professional investment and support staff, made up of Officers of the Council, who provide advice on a day-to-day basis. The Pensions Committee Chair and Members can contact officers and independent advisors on an ad hoc basis as and when required.</p> <p>Expert consultants and Actuaries are also used by the Fund as required.</p> <p>The Training Policy covers the training and development of Members of the Committee and ISG, the Board and the officers responsible for the management of the Fund. It ensures that:</p> <ul style="list-style-type: none"> <li>• the Committee has the required knowledge and skills to make appropriate decisions and offer challenge;</li> </ul>		

#### 4. INVESTMENT STRATEGY STATEMENT (ISS)

- members of the Board have the relevant knowledge and capacity to assist the Administering Authority of the Fund secure compliance with relevant regulations and legislation and the requirements of The Pensions Regulator; and
- Officers are adequately trained and experienced to undertake the day to day operation and management of the Fund.

There is a forward-looking business plan and progress is regularly evaluated. This includes a three-yearly strategic investment review, following the Actuarial Valuation.

<b>Principle 2: Clear Objectives</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
<ul style="list-style-type: none"> <li>• An overall investment objective(s) should be set out for the Fund that takes account of the Fund's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and fund employers, and these should be clearly communicated to advisors and investment managers.</li> </ul>		✓
<p>The investment objectives and Fund attitude to risk are detailed in the Investment Strategy Statement and the Internal Control &amp; Risk Management Policy; and the Funding Strategy Statement details the funding objectives. Both are formally reviewed and approved annually as well as being updated in the interim as required.</p> <p>In determining the Investment and Funding Strategies, the Fund, in conjunction with its Independent Advisors and Actuary, considers the Fund's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and fund employers.</p> <p>The Fund has its own investment benchmark although regard is paid to peer performance to comply with Best Value methodology. The Fund's liability profile will normally be considered in relation to its benchmark every three years, with annual interim reviews.</p> <p>All fund managers have clear written mandates, governed by the Fund's strategic objectives and Pension Investment Regulations, and are reviewed regularly by officers and the Pensions Committee.</p>		
<b>Principle 3: Risk and Liabilities</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
<ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>		✓  ✓



#### 4. INVESTMENT STRATEGY STATEMENT (ISS)

Consideration of the form and structure of the Fund's liabilities and the appropriateness of the Fund's strategic asset allocation to meet these in the longer term is the cornerstone of both the triennial valuation of the Fund and its review of its Investment Strategy.

A full strategy review is undertaken every three years in conjunction with the Actuarial Valuation and the most recent was agreed by the Committee in March 2021.

The Actuarial Valuation considers longevity risk and the affordability of contribution rates for the two unitary councils and the other employers of the Fund, taking a prudent longer-term view of funding the liabilities. This process includes consideration of the strength of employer covenants (which is also kept under less formal review in between valuations).

Principle 4: Performance Assessment	Not Compliant	Fully Compliant
<ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisors.</li> <li>• Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.</li> </ul>		<p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p>
<p>To ensure independence and oversight the Fund uses an external performance measurement service. Investment performance is reported to the Pensions Committee each quarter, and as a minimum there is an Annual Performance Review with the Fund's external performance monitoring service provider.</p> <p>Ongoing performance contribution will be reviewed quarterly in addition to the annual and longer-term investment performance being reviewed in detail. The Fund operates a tiered performance monitoring framework, the three tiers being officers and advisors, the Investment Sub Group (ISG), and the Pensions Committee, with governance oversight from the Local Pension Board.</p> <p>Investment Managers are constantly under review, with Officers and Advisors informing the ISG and escalating any issues immediately. Officers and Advisors will meet with managers (holding greater than 4% of the total Fund investments including future commitments i.e. £124m at December 2022) formally at least annually and report their findings from these meetings to the ISG.</p> <p>The ISG is responsible for carrying out investment asset class monitoring; i.e. monitoring investment performance and the progress of the implementation of the Cumbria Pension Fund's Investment Strategy monitoring; providing an update report to Pensions Committee outlining investment performance during the preceding period and escalating any matters of concern for further consideration to the Pensions Committee and where appropriate giving initial consideration to investment opportunities prior to their being considered by Pensions Committee. The ISG receives a quarterly report covering every manager, which sets out performance</p>		

#### 4. INVESTMENT STRATEGY STATEMENT (ISS)

results and a broad range of metrics. Should there be any items of concern, the ISG escalates such matters to the full Committee.

The Pensions Committee is responsible for strategic decision making and oversight and makes 'hire/fire' decisions or see managers due to escalation from the Investment Sub Group.

The Pensions Committee Members are surveyed regularly for their views on quality of advice given by the Investment Advisors. In September 2019 the Fund approved strategic objectives for its Investment Advisors in line with the Competition and Markets Authority (CMA's) order related to the Investment Consultancy and Fiduciary Management. The Fund has submitted a statement to the CMA to confirm compliance with the order.

Effectiveness of Pensions Committee decisions, such as strategy and manager selection, are discussed in the Annual Report and Accounts.

<b>Principle 5: Responsible Ownership</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
<p>Administering authorities should:</p> <ul style="list-style-type: none"> <li>• adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.</li> <li>• include a statement of their policy on responsible ownership, including climate change in the Investment Strategy Statement; and</li> <li>• report periodically to Fund members on the discharge of such responsibilities.</li> </ul>		<p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p>
<p>Voting at Company meetings is delegated to investment managers. Reporting is required on a quarterly basis and is incorporated into the quarterly monitoring of the Fund by the Pensions Committee.</p> <p>The Financial Reporting Council's (FRC), UK Stewardship Code 2020, sets high expectations on those investing pension fund monies. It seeks to set a clear benchmark for stewardship as the responsible allocation, management and oversight of assets to create long term value and lead to sustainable benefits for the economy, the environment and society. The Fund's commitment to responsible investment, corporate governance and stewardship is communicated by the Fund's Stewardship Report 2021/22, which focuses on activities and outcomes, and it is as part of the Annual Report and Accounts 2021/22 on the Fund's website at:</p> <p><b><a href="https://www.cumbriapensionfund.org/media/4tuiqfwl/cumbria-lgps-2021-22-annual-report-final.pdf">https://www.cumbriapensionfund.org/media/4tuiqfwl/cumbria-lgps-2021-22-annual-report-final.pdf</a></b></p> <p>The report was submitted to the FRC in October 2022 and has been assessed as meeting the requirements of the FRC's UK Stewardship Code 2020 and Cumbria Local Government Pension Scheme is listed as a signatory to 'the Code'.</p>		

#### 4. INVESTMENT STRATEGY STATEMENT (ISS)

BCPP (the pooling company jointly owned by the Fund and 10 other Partner Funds which manages all of the Fund's actively managed listed equities) also published a Responsible Investments and Stewardship report 2021/22:

<https://www.bordertocoast.org.uk/publication/responsible-investment-and-stewardship-report-2021-2022/>

BCPP also submitted their report in October 2022 and the report has been assessed as meeting the requirements of the FRC's UK Stewardship Code 2020.

All other investment managers are also required to adhere to the UK Stewardship Code (or equivalent code in their regional jurisdiction).

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

<b>Principle 6: Transparency and Reporting</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
<p>Administering authorities should</p> <ul style="list-style-type: none"> <li>• act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and</li> <li>• provide regular communication to members in the form they consider most appropriate.</li> </ul>		<p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p>
<p>The Investment Strategy Statement (ISS) includes:</p> <ul style="list-style-type: none"> <li>• The Fund's Statement of Investment Beliefs (Annex A)</li> <li>• The Fund's investment objective,</li> <li>• The Fund's approach to investment and risks,</li> <li>• The types of investments and limits.</li> </ul> <p>The ISS (previously the Statement of Investment Principles) will be included in the Fund's Annual Report; these are publicly available on the Fund's website.  <a href="https://www.cumbriapensionfund.org/forms-publications/">https://www.cumbriapensionfund.org/forms-publications/</a></p> <p>Investment performance is included in the Annual Report.</p> <p>The Cumbria LGPS Pension Board is given full access to all Pensions Committee papers and are provided with briefing sessions and training presentations appropriate to their ongoing business. In addition, they are also offered the opportunity to join all training sessions provided for the full Committee.</p> <p>The Cumbria Pensions Forum meets to inform and consult on wider pensions issues; the members have access to the Annual Report and Accounts, the current Fund Policy Document and public Pensions Committee papers.</p> <p>The Pensions Committee Minutes and Agenda are available on the Council's website.</p>		

#### 4. INVESTMENT STRATEGY STATEMENT (ISS)

The Cumbria LGPS Pension Board Minutes and Agenda are available on the Council's website.

A summary of the financial position and latest Fund news is made available to all members of the fund with their Annual Benefit Statement. This will outline details of how scheme members can access more detailed information online, which includes the full Annual Report and Accounts.

The Administration Strategy (including Communications Policy) sets out the Fund member and pensioner administration operations, with the policy for communication with members and access to information, in full detail. This is also included in the Annual Report and published on the Council's website.

## **4. INVESTMENT STRATEGY STATEMENT (ISS)**

### **ANNEX A – CUMBRIA LGPS INVESTMENT BELIEFS**

#### **STATEMENT OF INVESTMENT BELIEFS**

##### **OVERARCHING OBJECTIVE**

To manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the Fund.

##### **BEHAVIOUR FRAMEWORK**

- Communicate in a clear and constructive way
- Act with honesty and respect for others
- Demonstrate a positive flexible attitude
- Take responsibility for our actions
- Obtain and maintain the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund; and
- Treat all employers and members of the fund equitably

##### **INVESTMENT BELIEFS**

###### **1. Our investment strategy should be determined by reference to the Fund's assets, liabilities and our risk tolerances**

- Our long-term primary goal is to generate returns required to fund our members' current and future pensions.

###### **2. Asset allocation has the greatest impact on the overall risk and return of the Fund**

- Diversification of investments reduces the volatility of asset returns and limits non market specific risk.
- Investment managers should be responsible for stock selection.
- Over the long-term equities are expected to deliver a higher return than bonds.

###### **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.
- Benchmarks should be used to measure performance, and not drive or dictate behaviour.
- Volatility represents an opportunity to the long-term investor in that it allows the investor to purchase assets at a price below their long-term value.

## 4. INVESTMENT STRATEGY STATEMENT (ISS)

- By the same token volatility allows profits to be taken and unexpected gains realised.
- However, it is recognised that volatility can impact on employers in the Fund (through its impact on employer contributions) and, therefore, ultimately on the Fund (as unsustainable employer contributions can have implications for the solvency of the Fund).

### **4. Good governance improves the quality of decision making**

- Officers, Pensions Committee and Pension Board members should have the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund.
- The team supporting the Pension Fund needs to be appropriately resourced, including having access to external advice, to ensure successful management of the Fund.
- Good returns, net of fees and costs, come from well-resourced and well governed Funds.

### **5. All investments have a degree of financial risk, but we should only accept financial risk where we have a strong belief that we will be rewarded for it.**

- Active management can deliver superior risk adjusted returns over time on a net of fees basis in certain markets.
- Passive management provides the most cost effective means of gaining exposure where it is believed that active management is not expected to add value.
- Costs matter and need to be managed and controlled however cost alone should not drive decision-making – the key consideration is return net of fees and costs.

### **6. 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.**

- Investors should be rewarded for giving up liquidity.
- Investment risks are multi-faceted and will change over time.
- Investors should be wary of investments where the promised return is out of proportion to the apparent risk.
- Investors should be aware of potential misalignment of interests especially when coupled with superior access to information on the part of the investment managers and advisors.

### **7. As long-term investors, we believe that integrating environmental, social and corporate governance considerations into the investment management process improves risk adjusted returns.**

#### 4. INVESTMENT STRATEGY STATEMENT (ISS)

- ESG factors, such as climate change, can have a material impact on the value of financial assets in the long term. Being a responsible investor and incorporating ESG factors into investment decisions can help to improve the long-term value for investors.
- We believe that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement.
- We expect management teams and board of directors to be responsive to their shareholders.
- We will lead by example by ensuring we are an active shareholder and, where appropriate, utilising the scale of collaboration with other LGPS Funds.

Approved 14 March 2023 by the Pensions Committee