CUMBRIA PENSION FUND INVESTMENT BELIEFS

STATEMENT OF INVESTMENT BELIEFS

Agreed: Cumbria Pensions Committee 23 March 2026

OVERARCHING OBJECTIVE

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

INVESTMENT BELIEFS

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.