

Statement of Investment Beliefs

The Committee believes that having a well-defined set of investment beliefs offers a number of advantages, including:

1. **Clarity on why each mandate is held and the role it performs in the Fund's arrangements** – this clarity is of benefit to the Committee and the underlying members. It also offers a basis for framing external communication on investment strategy which is of particular relevance where decisions are subject to public scrutiny.
2. **Prioritisation** - having identified which investment decisions are most important, advice can be sought and meetings scheduled around these key priorities.
3. **Long-term thinking** - having a set of stated investment beliefs, the Committee is better able to avoid being unduly influenced by short-term market noise and in-vogue investment ideas.
4. **Consistency, both of advice and decision-making** – i.e. all decisions are reached using the same consistent framework.
5. **Continuity of understanding in decision-making** – having a decision-making framework based on a set of beliefs allows decisions to be contextualised, which is particularly valuable if there is turnover of Committee members.

The Committee's investment beliefs, outlined below, will be revisited on a regular basis to ensure they remain appropriate for the Fund.

Investment Beliefs

Belief: Clear and well defined objectives are essential to achieve future success

The Committee is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due.

Belief: Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection

The Committee understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters.

Belief: Funding and investment strategy are linked

The Committee understands that a number of funding related aspects feed into investment strategy decisions, including maturity, sponsor covenant and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Committee.

Belief: The Fund should take no more investment risk than is necessary to meet its objectives

One key element of the link between funding and investment strategy is that as funding level improves there is generally scope for the level of investment risk to be reduced.

Belief: Long term investing provides opportunities for enhancing returns

The Committee believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

Belief: Equities are expected to generate superior long term returns

The Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

Belief: The Fund's equity allocation adopts a global approach

The Committee currently adopts a global approach to gaining equity exposure (albeit, largely for historic grounds, the Fund has an overweight to UK equities). The Committee believe that the equity market is increasingly global in nature and the location of listing of a particular share does not necessarily reflect the region of its economic exposure. The Committee review the nature of their equity exposure on a regular basis.

Belief: Alternative asset class investments provide diversification

The Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Committee believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, absolute return funds, private equity, infrastructure and property) will provide the Fund with diversification benefits.

Belief: Increasing diversification is beneficial, but only if the costs of doing so are justified

The Committee understands that increasing diversification comes with costs, including the governance burden of overseeing additional mandates and managers. The Committee review the level of diversification when reviewing the Fund's strategy and manage arrangements.

Belief: Fees and costs matter

The Committee recognises that fees and costs reduce the Fund's investment returns. The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process.

Belief: Active management can add value but is not guaranteed

The Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Committee will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers,

and recognising that periods of underperformance will arise, the Committee seeks to minimise the additional risk from active management, and continue to monitor active managers to ensure their mandates remain appropriate for the Fund.

Belief: The Fund will not seek to benefit from tactical asset allocation

The Committee do not believe that tactical asset allocation (i.e. moving assets *between* asset classes over short time frames) can add value for the Fund.

Belief: Passive management has a role to play in the Fund's structure

The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

Belief: Choice of benchmark index matters

The Committee recognises that, for each asset class, there is a range of benchmark indices that they could use. As a result, the Committee focus on the benchmark's underlying characteristics and consider how they may be appropriate for the Fund.

Beliefs: Rebalancing can add value

Academic studies show that regular rebalancing can help add value over the long-term. The Committee will consider putting in place agreed tolerance ranges for their liquid assets, with the intention that assets will be rebalanced, at least towards target, should these ranges be breached.

Belief: Environmental, social and corporate governance ('ESG') issues can have a material impact on the long term performance of its investments

The Committee recognises that ESG issues can impact the Fund's returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers.

The Committee believes that companies with a responsible ESG policy are expected to give more predictable returns compared to companies without an ESG policy, over the longer term.

The Committee is reviewing its approaches to engagement and voting and will consider its ESG aims when constructing the Fund's investment portfolio. Divestment will remain the ultimate sanction for the Committee but will only be considered if prolonged engagement is viewed as being unsuccessful.

The Committee intends to make use of collaboration with other funds to pursue their ESG objectives, including through being members of the Local Authority Pension Fund Forum ("LAPFF"). The Committee also commits to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations. (please ESG and RI Policy)