



HAMPSHIRE
PENSION FUND

Investment Strategy Statement

December 2025



Hampshire
County Council

hants.gov.uk

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Introduction

Hampshire County Council is the administering authority for the Hampshire Pension Fund (the “Fund”), which covers employees of the County Council, two unitary councils, 11 district councils, and 388 other scheduled and admission bodies. The total number of contributors is 61,842 and there are 92,084 deferred scheme members and 58,277 pensioners (all as of 31 March 2025).

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require pension fund administering authorities to prepare and review, from time to time, an Investment Strategy Statement.

This Statement has been drafted to comply with these regulations in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement.

Investment strategy

The Fund has three main aims

- To manage the employers’ liabilities to achieve long-term solvency. Accordingly, employers’ contributions will be set to ensure that 100% of the liabilities can be met over the long term.
- To enable primary contribution rates to be kept to nearly as constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike.
- Seek returns on investment within reasonable risk parameters.

In compiling the Fund’s 2022 Actuarial Valuation, the Fund’s Actuary at the time of the valuation, Aon advised that the Pension Fund requires the assets to deliver a long-term return of above the discount rate of 4.4%, which is set out in the Fund’s Funding Strategy Statement.

The Pension Fund Panel and Board have prepared a set of investment beliefs based on their experience of the workings of the Fund and the nature of the underlying investments held, which are contained in Annex 1.

Variety of investments

In order to achieve the return in its Funding Strategy, the Investment Regulations require the Pension Fund to invest money in a wide variety of investments and state the maximum percentage that it will invest in particular investments or classes of investment.

The strength of the majority of the Fund's employers' covenants and the present positive annual cashflows allow the Fund to have set a long-term deficit recovery period and to take a corresponding long-term view of investment strategy.

For the purpose of setting maximum limits the Pension Fund has done this at a strategic level. The total is deliberately greater than 100% to allow flexibility between the categories. The allocation below favours growth assets as the Fund believes that participation in economic growth is a major source of long-term equity returns, which will be required to meet its long-term investment return target and mean that employer contributions can be kept lower.

	Minimum	Maximum
Growth assets – To deliver sufficient return to meet the funding target and maintain the affordability of the target level of contributions (assets such as equities and hedge funds).	30%	60%
Income assets – Structuring the assets to meet the Fund's income requirements or increase the confidence of achieving required returns through a more stable and observable return stream (assets such as property, infrastructure, loans and alternative credit).	20%	50%
Protection assets – Employing investment strategies that provide some downside protection or diversification benefit to maintain stability in the level of contributions (assets such as traditional gilts and index-linked gilts).	10%	30%

Suitability of investments and receipt of investment advice

The Pension Fund has access to the necessary skills, expertise and resources to manage the whole Fund. When making investment decisions the Pension Fund Panel and Board will take advice from appropriate specialist investment professionals including officers, consultants and independent advisers. The Panel and Board have appointed a permanent independent adviser (currently Investment Trustee and Adviser Ltd) to provide advice on all investment decisions.

The Pension Fund recognises the importance of ensuring that all staff and Panel and Board members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The members of the Panel and Board annually complete a training needs analysis based on CIPFA's Knowledge and Skills Framework for pension funds, which includes investments, and a training plan is prepared to meet the requirements identified.

To fulfil the training needs of officers and Panel and Board members the Pension Fund will access training from a variety of investment professionals, including both companies that it does and does not currently contract with, in order to gain exposure to a wide variety of views.

Strategic asset allocation

To implement the Pension Fund's Investment Strategy the Pension Fund Panel and Board sets a Strategic Asset Allocation with the aim of achieving the Fund's overall long-term target return without exposing the Fund to excessive risk. In setting the Strategic Asset Allocation advice was commissioned from Hymans Robertson on the options for the Fund's asset allocation and the most effective allocation for achieving the Fund's target return with the degree of certainty specified in the Funding Strategy Statement.

In line with the Regulations, the Fund's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in

Investment sector	Position as at 31 March 2025	Long Term Strategic Asset Allocation
Growth	42.1%	38.5%
Income	36.6%	39.5%
Protection	21.3%	22.0%
Total Fund	100.0%	100.0%

entities which are connected with the County Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Strategic Asset Allocation was agreed in 2023 following the Fund's last triennial actuarial valuation and

the Panel and Board has agreed an implementation plan in order to move to the new allocation. The Fund's Asset Allocation will be reviewed from time to time by the Panel and Board and at least every three years following the actuarial valuation.

To manage the portfolios in the Fund's asset allocation the Pension Fund contracts with specialist external investment managers. No assets are managed internally, with the exception of the Fund's cash balance. The Fund's current investment managers are shown in Annex 2.

At the 2022 valuation 1.9% of the Fund's liabilities were orphan liabilities. The Administering Authority's policy is to minimise the risk to the participating employers in the Fund by matching the value of the orphan liabilities to an equal amount of index-linked gilts from the Fund's investments. The Administering Authority currently operates a single investment strategy as outlined above, so the Fund Actuary notionally allocates index linked gilts to the orphaned liabilities within the valuation calculations, with the balance of the Fund's investment returns credited to the participating employers.

Approach to risk

The Pension Fund has identified a number of risks on its risk register that may impact its funding and investment strategies which is reviewed at least annually by the

Panel and Board. The Pension Fund maintains a risk register to identify key risks, consider and assess their significance, likelihood of occurrence and potential impact of the risk.

The Panel and Board is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. The Fund's appetite for risk is to minimise the overall portfolio risk while delivering the target returns through a diversified portfolio.

Approach to pooling

Hampshire is a member of the ACCESS pool.

Following the Government's direction as part of its LGPS Fit for the Future programme, Hampshire has committed to join LGPS Central. From 1 April 2026 LGPS Central will be responsible for the implementation of this investment strategy and management of the Pension Fund's investments.

Hampshire will be a member of LGPS Central alongside:

Cheshire	Nottinghamshire
Derbyshire	Shropshire
Gloucestershire	Staffordshire
Isle of Wight ¹	Suffolk
Leicestershire	West Midlands
Oxfordshire	Wiltshire
Norfolk	Worcestershire

¹ Subject to Council approval

Responsible investment policy

1. Rationale, definition and beliefs

The Pension Fund's investment principles include:

- a long-term focus to make investment returns to meet pensions liabilities, i.e. the amount needed to fund retirees (currently calculated by the Fund's actuary as 4.4%pa), and
- a belief in the importance of Responsible Investment (RI), including consideration of social, environmental and corporate governance (ESG) factors, which can both positively and negatively influence investment returns.

Therefore, RI is important to the Pension Fund in fulfilling its role to pay scheme members benefits and for its reputation with scheme members, employers and the wider Hampshire community. This document sets out how the Fund's RI responsibilities are delivered in line with these principles.

The Pension Fund's approach to RI, includes consideration of the Principles for Responsible Investment (PRI), a set of six principles that provide a global standard for responsible investing. The PRI sets out the following examples as guidance:

- **Environmental:** climate change, including physical risk and transition risk, resource depletion, including water, waste and pollution, deforestation
- **Social:** working conditions, including slavery and child labour, local communities, including indigenous communities, conflict, health and safety (including health inequalities), employee relations and diversity
- **Governance:** executive pay, bribery and corruption, political or religious lobbying and donations, board diversity and structure, unjustifiable tax strategy

This policy is based on the following key RI beliefs:

- RI considerations are important, particularly over the longer term to both protect and enhance long-term investment return and maintain alignment to stakeholders' values

- RI considerations apply to all asset classes, but different asset classes may mean the management and implementation is different
- Responsible management of RI Issues is a reputationally important issue
- The Pension Fund expects the consideration of ESG factors to be incorporated into the portfolio construction process of all investments made by our investment managers

2. Prioritisation of RI issues

The Pension Fund believes all of the issues highlighted as ESG factors above are important and need to be appropriately managed. Hampshire has aligned its RI priorities to those of the ACCESS pool in order to maximise both its impact in achieving these priorities and reporting to scheme members and employers. Having RI priorities does not diminish the importance of issues that are not mentioned or does not mean that these will not receive attention, but Hampshire is following best practice in setting priorities to give focus to its ESG work.

Environmental factors

Climate change

Climate change risk is aligned with the Task Force on Climate-related Financial Disclosures recommendations, which covers:

- climate governance,
- strategy,

- risk management and
- metrics and targets.

Areas of focus within climate change include:

- transition risks (shifting business models to being net zero),
- physical risks (impact of climate change on business operations)
- a focus on renewable energy.

Just transition

Hampshire seeks a “just transition to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of industrial change.”

Social factors

Human rights, including

- modern slavery,
- child labour and
- treatment of local communities.

Labour practices, including

- good employment relations,
- health and safety at work,
- human capital management and
- training.

Governance

Good governance

Aligned with the UK Corporate Governance Code, which notes that effective and entrepreneurial leadership is critical to the long-term success of a company and sustainable returns for investors.

Good governance covers:

- appropriate board structure to ensure internal controls and challenge,
- diverse board membership to avoid groupthink,
- the skills mix required for a board to be effective and
- adequate director independence to protect the interests of minority shareholders (such as pension funds in public equities).

Part of good governance is also ensuring executive remuneration is not excessive, supports the long-term success of the company, rewards performance and is aligned with the interests of shareholders.

3. Stock/sector exclusions and social impact investments

The Pension Fund's current policy is to engage with companies to promote and encourage them to achieve better RI outcomes, and would want to continue to engage rather than disinvest, where a company/sector is progressing towards better management of RI issues. However, after thorough consideration the Pension Fund Panel and Board (PFPB) have agreed to **actively work towards disinvesting from fossil fuel investments.**

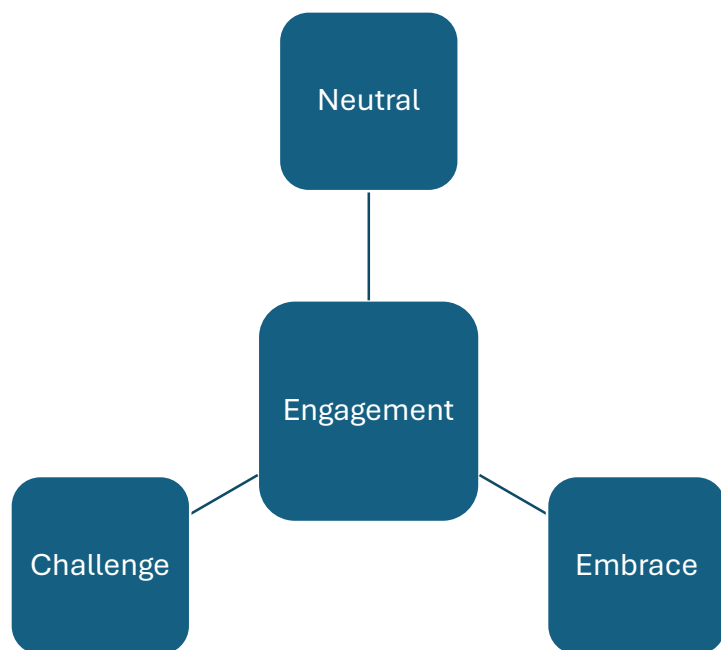
The Pension Fund's focus remains on measuring and reducing the carbon footprint of all the companies in which it invests and working with its investment managers to find ways to reduce the overall carbon footprint in line with its aim to have net-zero emissions by 2050, whilst continuing to achieve the investment returns that are required to pay pensions.

The Fund will continue to consider further disinvestment or exclusion of a particular stock, industry or country or investment in specific 'social' investments where the management of ESG issues, including making a positive contribution to a lower carbon economy, in cases where they are not considered to be well managed, with no scope for improvement. The Pension Fund will act if it believes that the decision would be supported by a significant majority of scheme members and employers; the Fund may take this approach so long as it does not result in significant financial detriment to the Pension Fund.

4. Framework and approach

Consideration of ESG in investment decisions

The Pension Fund delegates its investment decisions to its current and future appointed investment managers, who are a combination of specialist external active investment managers and passive investment managers. The PFPB engages in responsible stewardship with its investment managers and will review and monitor investments based on the following model:



- **Challenge** – where the underlying investment/company delivers less than a net neutral contribution to a sustainable society with a

high barrier to transformation, the Fund will challenge its investment manager (where appropriate) on their decision to hold the investment.

- **Neutral** – underlying investments/companies that have potential to transform their operations and/or business model to fit in a sustainable future.
- **Embrace** – where underlying investments/companies are delivering a positive contribution with an undebatable fit in a sustainable future, the Fund will be in dialogue with its investment managers to understand what it can learn from these investments and its investment managers' decisions to invest.
- **Engagement** – in all situations the Fund expects its investment managers to engage with companies that they have invested in, as described in more detail below.

The Fund recognises that there are different expectations for its investment managers in the context of this Policy as follows:

Passive investment managers

These managers are employed to mirror the stocks in various indices, and the PFPB accept that in making investments for the Pension Fund through an index, passive managers are unable to actively take ESG factors into account.

However, the PFPB does expect its passive investment managers to act in the best interests of the Pension Fund

to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the PFPB expects its passive investment managers to engage with companies within the index on areas of concern related to ESG issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments (see separate section below on Exercising Voting rights).

Quantitative investment managers

These investment managers employ automated techniques to select stocks as opposed to individual judgement (used by 'traditional' active investment managers), but unlike passive investments are not constrained by any index. The Pension Fund would only utilise a quantitative investment manager if having taken advice it was appropriate for implementing the Fund's investment strategy and following a thorough assessment of the investment manager and their quantitative model, including the extent to which it can account for ESG factors.

Similar to passive investment management the Pension Fund accepts that a quantitative investment manager cannot make stock specific judgements on ESG issues and therefore may not be able to take all ESG factors into account in their investment decisions. However, the Fund still requires the same level of engagement and exercise of voting rights (as described above) as with all other investment managers.

Active investment managers

The PFPB delegates responsibility for making individual investment decisions (non-passive) to its active investment managers. All the Pension Fund's active equity and fixed income managers are invested in via the ACCESS pool. Investment managers in the ACCESS pool are subject to ACCESS's RI guidelines, which accord with Hampshire's policy requiring its active investment managers to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment.

Investments are expected to transfer to LGPS Central's management from 1 April 2026, and will be subject to LGPS Central's RI policy, which, as shareholder and client, Hampshire will be able to feed back on.

To ensure ESG factors are considered in investment decisions, the PFPB uses the following framework of questions, which it requires its investment managers to be able to answer and uses these as a basis to scrutinise them.

For each investment, has the investment manager assessed and concluded that the overall expected long-term financial return is mitigated from the risk of:

- the physical shock of climate change (including damage from extreme weather events), together with the impacts of transitioning to a lower-carbon economy;

- negatively contributing to climate change or other environmental issues, such as pollution, waste (including use of plastics) and bio-diversity loss;
- any outcome damaging to human rights, including slavery and child labour in supply chains, and the impact of armaments, particularly controversial weapons (namely cluster bombs, landmines, depleted uranium weapons, and chemical and biological weapons);
- detrimental social impacts or increasing health inequalities from the company's products/services, such as tobacco;
- poor corporate governance, systems of control and lack of transparency;
- a senior management pay structure biased towards managers making short-term decisions not in the company' and investors' long-term interests;
- the detrimental treatment of the company's workforce or workers in the supply chain on issues such as health and safety, gender equality and pay;
- dangerous business strategies, such as the creation of monopolies, that may expose the company or wider economy to unacceptable risk;
- reputational damage to the company, the Pension Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code; as a result of its approach to any ESG issue.

If the PFPB do not receive satisfactory responses to these questions they may undertake further engagement with investment managers (and possibly directly with investments) and/or consider directing the investment manager to not invest in the company/sector in question.

Closed-ended limited partnerships

The Pension Fund invests in closed ended limited partnerships and has let a number of discretionary contracts to investment managers for investments in private equity and infrastructure in these types of investments. The Pension Fund requires that its investment managers integrate ESG considerations into their selection of these investments, which it believes will improve the long-term risk adjusted returns. Whilst the Pension Fund expects its investment managers to be able to influence the investment decisions of these partnerships, it accepts that once the Fund has committed its investment it cannot control the underlying investments that are made.

Direct property

The Pension Fund has made a strategic allocation to invest in UK commercial property, and therefore recognises that as a landlord it has an opportunity to affect the quality of the buildings it owns. As part of the investment management contract the Pension Fund has let for the discretionary management of its property portfolio, the Pension Fund expects its investment manager to consider improving the environmental impact

of each of the properties it owns as part of the investment case for owning each property.

Responsible investment sub-committee

The Pension Fund Panel and Board (PFPB) take their responsibilities for Responsible Investing and the consideration of ESG issues very seriously, and have established a Responsible Investment sub-committee, which meets at least twice a year, to review ESG issues and support implementation of the Responsible Investment Policy.

The Terms of Reference of the sub-committee are as follows:

To make recommendations to the PFPB on ESG issues having completed the following activities.

- a) To review regularly the Pension Fund's Responsible Investment Policy (contained in its Investment Strategy Statement), and practices relating to it, to ensure ESG issues are adequately reflected.
- b) To provide a forum for considering representations to change this Policy and/or the Pension Fund's responsible investment practices relating to it.
- c) To engage in responsible stewardship with its investment managers and to provide a forum for the review and monitoring of investments in the context of the Policy.
- d) To receive any relevant training on ESG issues.

- e) To review investment managers' company engagement and voting decisions and when necessary, engage directly and indirectly with investment managers (where possible directly with companies the Pension Fund is invested in) to make representations concerning ESG as appropriate.
- f) To engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate.
- g) To report annually on the Pension Fund's Responsible Investment activities to demonstrate progress to the Pension Fund's stakeholders.

Conflicts of interest

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

The Pension Fund expects investment managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publicly available on their respective websites. These are discussed prior to the appointment of a manager and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, PFPB members are required to make declarations of interest prior to meetings which are documented in the minutes of

each meeting and available on the County Council's website at <https://www.hants.gov.uk/>. Hampshire County Council, as the Administering Authority of the Hampshire Pension Fund, requires all members of the PFPB and officers to declare any pecuniary or other registerable interests, including any that may affect stewardship of the Fund's investments. Details of the declared interests of County Council members are maintained and monitored on a Register of Member Interests. These are published on the County Council's website under each member's name and updated on a regular basis.

5. Exercise of rights attaching to investments

Each of the Pension Fund's investment managers is asked to work in a consistent and transparent manner with companies they are invested in to ensure they achieve the best possible outcomes for the Pension Fund, including forward-looking ESG standards. This includes requiring investment managers to exercise the Fund's responsibility to vote on company resolutions wherever possible.

The Fund believes that if companies comply with the principles of the UK Corporate Governance Code published by the Financial Reporting Council, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of stakeholders including shareholders, company employees and

consumers. The Fund's investment managers should cast their votes with this in mind.

In particular, the Fund's investment managers should cast their votes to ensure that:

- executive directors are subject to re-election at least annually;
- executive directors' salaries are set by a remuneration committee consisting of a majority of independent non-executive directors, who should make independent reports to shareholders;
- arrangements for external audit are under the control of an audit committee consisting of a majority of independent non-executive directors, with clear terms of reference; these should include a duty to ensure investment managers closely control the level of non-audit work given to auditors, and should not significantly exceed their audit-related fee unless there are, in any investment manager's opinion, special circumstances to justify it;
- in the investment managers' opinion, no embarrassment is caused to the Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code.

The Pension Fund's equities are available for Stock Lending, via the programme agreed as part of the ACCESS pool. The programme includes the provision for investment managers to recall stocks from the lending

programme, should this be necessary voting at company meetings.

6. Monitoring, reporting and next steps

Reporting

Scheme members were consulted on the original version of this RI policy in 2019. Any comments on ESG issues are reported to the RI sub-committee as a standing item at each meeting.

The Pension Fund's investment managers (both active and passive) are required to report to the Pension Fund on their engagement with company management and

voting recording, highlighting any instances that they voted against company management or did not follow these guidelines.

The reports of the investment managers on their consideration of ESG factors, their company engagement and collective engagement and shareholder voting will be viewed by the Pension Fund's officers, the Responsible Investment Sub-Committee and Pension Fund Panel and Board.

The following table shows how the Pension Fund sets its policy and reviews its progress including complying with the various standards it has adopted.

	Frequency	Where to find it
Strategies and policies		
Investment Strategy Statement	Reviewed annually	Pension Fund Policies
Responsible Investment Policy	Reviewed annually	Responsible Investments
External Reports		
Annual Report and Annual RI Update	Annual	Annual reports and accounts
TCFD Report	Annual	Responsible Investments
UK Stewardship Code Report	Annual	Responsible Investments
PRI report	Annual	Responsible Investments
GRESB report	Annual	Reported to Panel and Board
Internal reports		
Stewardship report to the RI sub-committee	Bi-annual	Committee details - Hampshire Pension Fund Responsible Investment Sub-Committee
Investment manager voting reports	Quarterly	Responsible Investments

RI standards

The Pension Fund supports and/or is a member of the following initiatives that aim promote RI for investors and positive changes in management of ESG factors:

- **UK Stewardship Code 2020** – The Pension Fund has been accepted as a signatory of the 2020 Code (one of only six initial LGPS signatories), which sets high stewardship standards for those investing money on behalf of UK savers and pensioners. The Fund has produced a Stewardship Code statement that sets out on a ‘apply or explain’ basis how it meets the 12 principles of the Code. [Statement of compliance - UK Stewardship Code 2020](#)
- **Principles of Responsible Investment (PRI)** – The Fund is a signatory to the PRI, which was founded by the United Nations and is the world’s leading proponent of responsible investment. In becoming a signatory the Pension Fund has committed to the PRI’s six principles for RI. More information can be found here: [Principles for Responsible Investment | PRI](#)
- **Pensions for Purpose** - The Fund is a member of Pensions for Purpose. Pensions for Purpose engages with pension funds and other institutional investors towards embracing impact investing. As a member the Fund has access to Pensions for Purpose services and member forums, where we

will benefit from resources to guide the approach to impact investing. More information can be found here: [Pensions For Purpose](#)

- **Taskforce on Climate-Related Financial Disclosure (TCFD)** – the Pension Fund supports TCFD which aims to develop recommendations for more effective climate-related disclosures that could promote more informed investment decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system’s exposures to climate-related risks. The Pension Fund reports in line with recommendations of TCFD. [TCFD Report](#)
- **Institutional Investors Group on Climate Change (IIGCC)** – The Fund is a member of the IIGCC. The Fund has made a public net zero commitment. As part of its membership the Fund benefits from educational materials, webinars, and the net zero framework, which will help the Fund achieve the target of net zero by 2050. More information can be found here: [IIGCC - The Institutional Investors Group on Climate Change](#)
- **Transition Pathway Initiative (TPI)** – The Fund publicly supports TPI, which is a global, asset-owner led initiative which assesses companies’ preparedness for the transition to a low carbon economy. The TPI tool assesses progress against companies and sectors to measure the level of

management quality and carbon performance, to aid in risk assessment. More information can be found here: [Home - Transition Pathway Initiative](#)

- **Just Transition** – A “just transition” means not transitioning to a low carbon economy at any cost but doing so whilst also ensuring that this is done in a socially responsible way. The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science have put together a comprehensive guide as to what this means for investors, and what action can be taken. The Fund has signed a statement of support and uses the guide to help embed this goal within the Fund’s policies and help hold our investment managers to account. More information is available at the following link: [Investing in a just transition - global project - Grantham Research Institute on climate change and the environment](#)

The Pension Fund will consider signing up to other investor standards and initiatives where the Pension Fund Panel and Board believes it will enhance Hampshire’s RI policy.

RI priorities for the coming year

The following topics have been identified as specific priorities for the coming year:

- To increase reporting to scheme members on RI, to reflect the significant increase in scheme member engagement in the 2025 RI survey
- To work with the Fund’s investment managers to identify where the labour practices and supply chain management of companies the Pension Fund invests in have the greatest risk of slavery or child labour
- To continue to work towards disinvesting from fossil fuels
- To work with LGPS Central to ensure the Pension Fund’s RI priorities (namely climate change, and the prevention of slavery and child labour) are embedded in their approach to RI and engagement activity

Annex 1 – Investment beliefs

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

The Pension Fund Panel and Board 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 scheme members' benefits as they fall due. The Panel and Board have considered their own priorities and believe that setting clear objectives for the Fund is key in providing focus for the way the investment strategy is implemented.

Belief: Funding and investment strategy are linked

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

Belief: Strategic asset allocation is a key determinant of risk and return

The Panel and Board understands that having the appropriate strategy in place is a key driver of the Fund's future success and thus is typically more important than manager or stock selection.

Belief: Equities are expected to generate superior long-term returns

The Panel and Board believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds.

The Panel and Board is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

Belief: The Panel and Board will take an appropriate level of investment risk

As a long term LGPS Fund the Panel and Board acknowledge the need to take 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.

Belief: Long term investing provides opportunities for enhancing returns

The Panel and Board 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: Government bonds provide liquidity and a degree of liability matching

Government bonds have characteristics that are similar to the assumptions used in valuing pension liabilities e.g. sensitive to changes in interest rates and (for index linked) to changes in market-implied inflation. This makes them a suitable asset for reducing the Fund's funding risks. In addition, this asset class has proven to be highly liquid at times of market stress, enabling it to be used for rebalancing and to help meet any outflows that may fall due. Given this, the Fund hold a proportion of its assets in this asset class.

Belief: Alternative investments provide diversification

The Panel and Board 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 Panel and Board believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, infrastructure and property) will provide the Fund with diversification benefits.

Belief: Fees and costs matter

The Panel and Board recognises that fees and costs reduce the Fund's investment returns. The Panel and Board 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.

The Panel and Board will consider paying higher fees to access the strategic opportunity or where the Fund can achieve better or more consistent net of fees returns.

Beliefs: Market inefficiencies will provide opportunities to add value overtime

The Panel and Board believe that at times relative market movements or dislocations will provide opportunities to generate additional returns for the Fund. However, the Panel and Board do not believe that they are best placed to capitalise on these opportunities. The Panel and Board will therefore set mandates with the flexibility for specialist external investment managers to add value through allocation decisions where deemed appropriate. Alongside this the Panel and Board will assess the position of the Fund against the long-term strategic benchmark and any requirements to rebalance back toward the long-term target.

Belief: Active management can add value

The Panel and Board recognises that certain asset classes can only be accessed via active management. The Panel and Board 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 Panel and Board will therefore use active management selectively and when doing so will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance may arise, the Panel and Board seeks to minimise the additional risk from active management.

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: Responsible Investment is important to the Panel and Board and can have a material impact on the long-term performance of its investments

The Panel and Board recognises that Responsible Investment issues incorporating all forms of Environmental, Social and Governance (ESG) issues can impact the Fund's returns. Given this, the Panel and Board aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Pension Fund is a signatory of the Principles of Responsible Investment with a Responsible Investment policy and a RI Sub-Committee.

Annex 2 – Current investment management arrangements

Portfolio	Investment Manager	Benchmark	Annual target performance gross / net of fees
High-performance global equities	WS ACCESS Managed Volatility (Acadian)	MSCI World Index	+1.5-2.5% net
	WS ACCESS Global Stars Equity (Robeco)		
	WS ACCESS Long Term Global Growth (Baillie Gifford)	MSCI ACWI	+1.5-2.5% net
	WS ACCESS Global Stock Fund (Dodge & Cox)		
Emerging markets	WS ACCESS Emerging Markets Equity Fund (Robeco)	MSCI Emerging Markets	
Passive Global Equities	UBS Asset Management	FTSE World Equity Index	
		MSCI ACWI	
Private equity	Patria		9%-11.5% net
Infrastructure	GCM Grosvenor		7.5%-10% net
Private debt	JP Morgan Alternative Asset Management	3 month GBP SONIA	+4% net
Timberland	Campbell Global		6% net
	Stafford Capital Partners		
Multi-asset Credit	WS ACCESS Global Multi-Credit Fund (Alcentra)	3 month GBP SONIA	+3% net
	WS ACCESS Total Return Credit (RBC BlueBay)		
Investment Grade Credit	WS ACCESS Sterling Investment Grade Credit Fund (Fidelity)	ICE Bank of America Euro Sterling	+1.0%
Passive UK index-linked bonds	UBS Asset Management	FT British Government Over Five Years Index-Linked Gilts Index	
UK property	CBRE Investment Management	Retail Price Index (RPI)	+3.5% net
Asset Backed Securities	WS ACCESS Asset Backed Securities (TwentyFour Asset Management)	3 month GBP SONIA	+2% gross

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