Westmorland & Furness Council

Cumbria Pension Fund

<u>**CUMBRIA LGPS STATEMENT OF INVESTMENT BELIEFS**</u>

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
- Act in the best interest of all employers and members of the Fund.

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.
   - Our aim is to maintain as stable a rate of overall employer contributions as is possible whilst securing the solvency of the Fund and its long term cost efficiency.

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 the identification of investment opportunities and the selection of the relevant financial assets, e.g. stocks, bonds and private assets.
   - 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.

3. **Our pooling partner is Border to Coast Pensions Partnership ("BCPP") and we should maximise the use of their funds.**
   - BCPP is our pooling investment manager and where there is alignment with the Fund's investment beliefs, strategy and risk appetite (and subject to the appropriate due diligence) we intend to transition the Fund's investments to them.
   - Our investment strategy should, where possible, reflect the sub-funds offered or being developed by BCPP.
   - We should be involved and 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 may take appropriate action if long term performance does not meet the expectations of the Fund.

4. **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 as an independent measure of performance.
   - Volatility represents an opportunity to the long-term investor in that it allows the investor to potentially purchase assets at a price below their long-term value.
   - 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).

5. **Good governance improves the quality of decision making**
   - Officers, Pensions Committee and Local Pension Board members should have the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund.
   - The foundations of good governance are clearly defined responsibilities and delegations.
   - 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.

6. **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 should deliver superior risk adjusted returns over time on a net of fees basis in certain markets.
- Where it is believed that active management is not expected to add value, 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.
- 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.

7. 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~~ appears 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.

8. As long-term investors, we believe that integrating environmental, social and corporate governance ("ESG") considerations into the investment management process improves risk adjusted returns.

- We believe 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.
- We note the UK Government's commitment to achieve net zero by 2050 and support that as a Fund.
- We note 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 scheme members and employers.
- 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, but do consider that being a responsible investor and incorporating ESG factors into investment decisions can help to improve the long-term risk adjusted returns for investors.
- We believe 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.
- We expect our active investment managers to consider progress on shareholder engagement in their decision to continue to invest or divest in a company.

- We expect management teams and Boards 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.

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