Statement of Investment Beliefs

Role and application of investment beliefs

The investment beliefs set out in this document provide a set of overriding principles by which the Committee make investment decisions. The beliefs adopted by the Committee are high level, but their interpretation has a meaningful impact on the way the Fund's investment strategy will be devised and implemented.

The Committee's beliefs have been split into five sections, with a number of beliefs sitting underneath these headings. Details of the Fund's investment beliefs are provided in this document. All beliefs will be reviewed on an ongoing basis to ensure that they remain appropriate.

Governance

1 Clear and well-defined objectives are essential to reflect the Fund's long-term strategic direction of travel and to help build a plan for achieving these objectives.

2 Taking a long-term approach to investing can enhance returns, reduce transaction costs and encourage improved governance.

3 Our knowledge and understanding of the Fund's requirements must be monitored regularly and subsequently improved through training.

4 Access to skilled, high quality internal and external professional advice is vital to effectively implement and manage the Fund's investment and administration activities.

5 Certain asset classes have higher associated risks and require significant investment management skill – for example; private equity, infrastructure and private debt. The fees and expenses paid to investment managers for these asset classes are higher, but can be justified (within reason).

6 Investing in assets that the Committee do not understand is an unrewarded risk. The Committee will work closely with their professional advisers and seek appropriate ongoing training on a regular basis to ensure they gain a sufficient understanding of all assets in which the Fund invests, or might seek to invest in, in the future.

7 Asset transitions between managers and asset classes should be minimised where possible to avoid transaction costs and out-of-market risk.

Investment strategy

8 Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.

9 There is a need to take investment risk in order to generate a sufficient level of return from the Fund's assets.

10 Strategic asset allocation is a key determinant of risk and return and is more important than investment manager or stock selection.

11 Rebalancing policies are important and could add incremental value for the Fund.

Investment Structure

12 There exists a relationship between the level of investment risk taken and the rate of expected investment return. However, for certain investments, it may take a long period of time for this relationship to be established.

13 Diversification across asset classes, markets, managers and investment styles reduces the overall volatility of the Fund's asset return. Investing in alternative investment asset classes can achieve greater diversification.

14 Active management can add value, but it is not guaranteed. Active managers should only be chosen where there is a high level of confidence in their ability to deliver positive results or an investable index is not available / unsuitable.

15 Passive management has a role to play in the Fund's investment structure, most notably in more efficient investment markets.

16 Choice of benchmarks and performance targets matters and influence how the Fund's assets are invested. Investment managers should be set risk tolerance constraints, specific investment constraints and outperformance targets.

17 Currency risk should be managed but at reasonable cost and within governance requirements.

Responsible Investment ("RI")

18 As the Fund invests for the long-term, environmental, social and governance ("ESG") factors are expected to have a bearing on the Fund's expected levels of risk and return. The Fund's investment managers are therefore expected to embed ESG factors into their investment process and decision making.

19 The Fund's Investment managers' approach to RI, including the integration of ESG into investment decision making and the use of engagement, must be assessed and monitored.

20 The Fund's Investment managers should act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.

21 Passive and active managers should actively engage with companies and comply with the Financial Reporting Council's Stewardship Code.

Climate change

22 Climate change and the expected transition to a low carbon economy presents a long-term financial risk to Fund outcomes and the assessment and management of the risks associated with climate change is consistent with our fiduciary duty.

23 Investment markets are not properly pricing in the risks associated with the transition to a low carbon economy and, consequently, climate risks will be better managed by pursuing investment in companies which are actively engaging with the transition to a low carbon economy.

24 Engagement with companies on climate-related issues is unlikely to have sufficient impact to protect long-term shareholder value.

November 2019