
Northumberland County Council
LGPS
Investment Strategy Statement

Effective from 18 March 2020

Introduction and background

This is the Investment Strategy Statement ("ISS") of the Northumberland County Council Pension Fund ("the Fund"), which is administered by Northumberland County Council ("the administering authority"). The ISS is formulated in accordance with:

- Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Investment Regulations"); and
- the Secretary of State's Guidance dated September 2016.

The ISS has been approved by the Fund's Pension Fund Panel ("the Panel") having taken advice from the Fund's investment adviser, Mercer. The Panel acts on the delegated authority of the administering authority.

The ISS, which was approved under a delegation given by the Panel on 28 February 2020, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Panel has consulted on the contents of the Fund's investment strategy with such persons as it considers appropriate.

The administering authority seeks to invest in accordance with the ISS any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (dated March 2020).

The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that administering authorities attach a Compliance Statement to the ISS, setting out compliance, or reasons for non-compliance, with the six principles of investment practice set out in the December 2009 CIPFA publication *Investment Decision-Making in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles.* The Fund's Compliance Statement is attached as **Appendix A**.

The Panel's remit includes:

- ensuring appropriate management of the investments of the Fund, including keeping under review the Fund's investment strategy and management structure; and
- appointing and reviewing the appointments of investment managers, advisers and consultants.

External investment managers have been appointed by the Panel to make the day-to-day investment decisions. Details of the investment managers employed by the Fund and the nature of their mandates are included in **Appendix B**.

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members upon their retirement and/or benefits on death for their dependants, on a defined benefits basis. This funding position is reviewed at each triennial actuarial valuation, or more frequently as required. The Fund is currently assessed as being close to fully funded so the investment strategy is focused on achieving returns in excess of inflation, without taking undue risk to protect the position.

The Panel aims to hold sufficient assets in the Fund such that, in normal market conditions, all accrued pension benefits are fully covered by the value of the Fund's assets and that appropriate employer contributions are set (by the Fund's actuary) to meet the cost of future benefits accruing. For active members of the LGPS, benefits will be based on service completed, salary and inflation.

The **Fund's investment objective** is to achieve a long term return on the assets which:

- ensures that, together with employer and member contributions, the Fund can meet its long term liabilities; and
- aims to maximise returns within acceptable risk parameters.

The Panel has translated the objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Panel's views on the appropriate balance between generating a satisfactory long term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Fund's investment strategy is reviewed by the Panel at least every three years.

The Fund's most recent full strategy review, to tie in with the 2019 actuarial valuation process, took place in July 2019, but the strategy is also considered at each quarterly Panel meeting. All Fund strategy reviews have been undertaken with advice from the Panel's investment adviser.

The strategy review considers the implications for the future evolution of the Fund of adopting a range of alternative investment strategies. At the 2019/20 strategy review, the Panel assessed the likelihood of achieving the long term funding target, which was defined as *maintaining a fully funded position*. The Panel also considered the level of downside risk associated with different strategies by identifying the low funding levels which might emerge in the event of adverse experience. The approach helps ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit at the most recent valuation of the Fund.

A summary of the expected returns and volatility for each asset class assumed in the 2019/20 strategy review is included in **Appendix C**.

The formal monitoring of the Fund's investments is undertaken by the Panel on a quarterly basis, with advice and input from the Panel's investment adviser.

In addition, the Panel monitors the strategy on an ongoing basis, focusing on factors including, but not limited to:

- suitability given the funding level and liability profile;
- level of expected risk; and
- outlook for asset returns.

The Panel monitors the Fund's actual allocation on a regular basis to ensure it does not deviate significantly from the target allocation, but acknowledges that a long term approach must be adopted to building up or reducing allocations to the illiquid investments held in property, private equity and infrastructure.

The performance of the total Fund and the individual managers is measured independently by Portfolio Evaluation.

Investment of money in a wide variety of investments

Asset classes

The Fund invests in UK and overseas markets including equities, corporate bonds, index linked bonds, investment grade credit and property through pooled funds. The Fund also invests in private equity and infrastructure as a partner in pooled funds.

The Panel reviews the nature of the Fund's investments and considers new (to the Fund) asset classes on a regular basis, with particular reference to suitability and diversification, taking advice from a suitably qualified person.

The Fund's target investment strategy is set out below. In line with the Regulations, the investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Panel has implemented a mechanism that requires Legal and General, the Fund's passive manager, to maintain the overall asset allocation of the Fund's public equities and bonds, rebalanced on a weekly basis to the target allocations within prescribed control ranges. This ensures that the Fund's liquid assets (i.e. equities and bonds) remain close to the asset allocation set by the Panel, within control ranges which have been set to minimise the number of transactions involved in rebalancing, whilst ensuring that the Fund benefits from systematic rebalancing from overvalued to undervalued assets.

The Fund's investments in private equity, property and infrastructure are not rebalanced due to the high costs of transacting in these asset classes.

Fund asset allocation

Asset class and target asset allocation			Allocation range	Role within strategy
Equities	12.0% in UK equities 40.2% in overseas equities 9.6.% in US 9.0% in Europe 7.2% in Japan 7.2% in Asia Pacific (Ex Japan) 7.2% in Emerging Markets 7.8% in RAFI 3000	60%	56% to 64%	- return seeking - diversification - liquidity - inflation protection - participation in economic growth
Bonds	7.5% in index linked securities 7.5% in investment grade credit 10.0% in corporate bond securities	25%	21% to 29%	- liability matching - diversification - liquidity - inflation protection
Illiquids	5.0% in property 5.0% in private equity investments 5.0% in infrastructure investments	5% 5% 5%	3% to 7% 3% to 7% 3% to 7%	- return seeking - diversification - inflation protection - participation in economic growth and illiquidity premium
Total	**100%**	**100%**		

Restrictions on investment

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 have removed the previous restrictions that applied to the 2009 Regulations. The Panel's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and a regular rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

Managers

The Panel has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Panel, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's active investment managers hold a mix of investments which reflect their views relative to their respective benchmarks. Legal and General, the Fund's passive manager, holds investments within each pooled fund that reflects the benchmark indices tracked.

Following consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market, the Panel has determined that a proportion of the Fund should be managed on a passive basis.

Type of mandate	Investment manager(s)	
One index tracking (passive) manager	Legal and General	75%
One corporate bond (active) manager	Wellington	10%
Two property unit trust (active) managers	BlackRock and Schroder	5%
Private equity fund of funds investment vehicles	Morgan Stanley, NB Crossroads and Pantheon	5%
Infrastructure investment vehicles	Antin, Global Infrastructure Partners and Pantheon	5%
Total		**100%**

75% of the total Fund value is managed by Legal and General and this splits into 15% bonds; c 12% UK equities; and c 48% overseas equities (the split of UK and overseas equities is not exact because part of the equities track the RAFI 3000 index which is a global equity fund).

The Fund's current allocation to passively managed investments is higher than in the past and will be reviewed in light of the BCPP Ltd sub-funds to be made available under pooling.

The Panel's expectations in respect of returns from the Fund's investments are expressed through achievable and prudent objectives and restrictions that have been set for each mandate.

When appointing or reviewing investment managers, the Fund selects fee structures considered to be the most economically advantageous to it over the life of the mandate. Following the implementation of the Government's pooling agenda, in future most of the Fund's manager selection and setting fee structures will be the responsibility of BCPP Ltd.

Details of the investment managers employed by the Fund and the nature of their mandates are included in Appendix B.

Risk measurement and management

The Panel accepts that the Fund must take investment risk in order to obtain returns that help achieve its funding objectives. There is an active risk management programme in place that aims to help the Panel identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate those risks.

The principal risks affecting the Fund are:

- financial mismatch, meaning the risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities;
- changing demographics/regulations, meaning the risk that longevity improves and other demographic factors change, or the Scheme itself changes, increasing the cost of Fund benefits; and
- systemic risk, meaning the possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly

compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Fund’s liabilities.

The Panel seeks to mitigate financial mismatch and systemic risk through a well-diversified portfolio capable of participating in economic growth. The Panel also seeks to understand the assumptions used in any strategy review and compares these to its own views.

The Panel assesses risk relative to the strategic benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. All three of the principal risks are measured as part of the Fund’s triennial actuarial valuation.

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Pension Fund Panel is aware of the Fund’s increasing maturity. The more mature a pension fund, the more likely it is that disinvestments will be needed to pay benefits, and the less investment risk likely to be taken. Maturity is considered as part of the investment strategy review.

The Fund is subject to risk of Scheme and guidance changes which may increase the cost of administering the Scheme or the value of the Fund’s liabilities.

Asset risks

The principal asset risks affecting the Fund are:

- concentration, meaning the risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives;
- illiquidity, meaning the risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets;
- currency, meaning the risk that the currency of the Fund’s assets underperforms relative to sterling (i.e. the currency of the liabilities);
- environmental, social and governance (“ESG”), meaning the risk that ESG related factors reduce the Fund’s ability to generate the long term returns; and
- manager underperformance, meaning the failure by the investment managers to achieve the rate of investment return assumed in setting their mandates.

The Panel measures and manages asset risks as follows:

- the strategic asset allocation benchmark invests in a diversified range of asset classes, and automatic rebalancing arrangements ensure the Fund’s actual allocation does not deviate substantially from its target;
- the Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk;
- the majority of the Fund’s assets are managed by a passive manager in funds that can be realised, with minimal transactions costs, on a weekly basis at short notice (the Fund’s shortfall of income from contributions over benefits paid to members represented 0.3% in 2018/19, 0.1% in 2017/18 and 0.5% in 2016/17 of the Fund’s net assets, and the Fund returned 11.2% per annum over the three years 2016/19);

- the Fund invests in a range of overseas markets which provides a diversified approach to currency markets and the Panel considers the Fund's currency risk during its risk analysis;
- the Fund hedges the foreign currency exposure on 50% of the North American equity holdings and the European (ex UK) equity holdings with Legal and General;
- the Fund's allocation to index linked gilts provides explicit inflation protection and to real assets such as property, infrastructure and equities provides the expectation of achieving returns in excess of inflation over time;
- the Panel has considered the risk of underperformance by any single investment manager and has reduced this risk by appointing more than one manager and having a proportion of the Fund's assets managed on a passive basis;
- the Panel assesses the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more manager(s), if it has concerns over future performance prospects; and
- the Panel recognises the importance of obtaining timely and appropriate training and advice from a suitably qualified adviser, to minimise the Fund's governance risk.

The Fund's approach to managing ESG risks is set out later in this document.

Other provider risk

- <u>transition risk</u>, meaning the risk of incurring unexpected costs in relation to the transition of assets between managers;
- <u>custody risk</u>, meaning the risk of losing economic rights to Fund assets, when held in custody or when being traded;
- <u>credit default</u>, meaning the possibility of default of a counterparty in meeting its obligations; and
- <u>stock lending</u>, meaning the possibility of default and loss of economic rights to Fund assets.

The Panel measures and manages other provider risks as follows:

- when carrying out transitions, the Panel seeks suitable professional advice;
- the Panel monitors and manages risks in these areas through a process of regular scrutiny of its providers (including obtaining the relevant assurance reports on internal controls for investment managers and the custodian), and via advice from the Fund's investment adviser, Mercer, who carries out ongoing manager/custodian research and assessments;
- custody risk is controlled through the restrictions set out in the custodian's agreement and through the ongoing monitoring of the custodial arrangements;
- monitoring and management of custody risk in relation to pooled funds has been delegated to the appointed investment managers; and
- for some of the pooled investment vehicles, the Fund participates in low risk stock lending programmes run by Legal and General, its passive manager, and delegates the monitoring and management of stock lending risk to the manager.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

Pooling investments, use of collective investment vehicles and shared services

The administering authority is a participant in Border to Coast Pensions Partnership (BCPP) Pool.

In December 2016, the Department for Communities and Local Government's Secretary of State confirmed that the BCPP pooling proposal met the investment reform and criteria published in November 2015, which required authorities to submit proposals describing pooling arrangements, having regard to each of four criteria:

- A. Asset pool(s) that achieve the benefits of scale;
- B. Strong governance and decision making;
- C. Reduced costs and excellent value for money; and
- D. An improved capacity to invest in infrastructure.

Structure and governance of BCPP Ltd

In June 2017, the administering authority, together with the eleven other LGPS administering authorities named below, entered into the Inter Authority Agreement and Shareholders Agreement to become the sole shareholders in Border to Coast Pensions Partnership Limited (BCPP Ltd) and to establish the Joint Committee to oversee its investment performance.

BCPP Ltd is a FCA regulated alternative investment fund manager ("AIFM") established to run and operate collective investment vehicles to allow the administering authorities to pool their respective investments. It became operational in July 2018 when the first tranche of assets was transferred to its management.

The twelve administering authorities that have agreed to share legal ownership, control and decisive influence over BCPP Ltd (known, in this context, as "the **BCPP Partner Funds**") are:

- Bedfordshire
- Cumbria
- Durham
- East Riding
- Lincolnshire
- North Yorkshire
- **Northumberland**
- South Yorkshire
- Surrey
- Teesside
- Tyne and Wear
- Warwickshire.

The Fund has not delegated its key strategic asset allocation or other investment decision making powers or investor rights to BCPP Ltd. Instead, these decisions are retained by the Panel, subject to consideration of any recommendations the BCPP Joint Committee may make.

Assets to be invested in BCPP Ltd

As yet, the Fund has no investments managed by BCPP Ltd. The Fund's intention is to invest its assets via BCPP Ltd as and when suitable sub-funds become available.

The key criteria for the Fund's assessment of BCPP Ltd sub-funds will be as follows:

- that the sub-fund enables access to an appropriate investment that meets the objectives and benchmark criteria set by the Fund; and
- that there is financial benefit to the Fund in investing in the sub-fund offered by BCPP Ltd.

At the time of preparing this statement, the detailed parameters and objectives of the full BCPP sub-fund range, and timetable were not finalised.

The Fund has determined that the following assets will be **held outside** of BCPP Ltd:

- passive investments with Legal and General held in life policies, though these investments would be transferred to BCPP Ltd should suitable, value for money passively managed sub-funds be established;
- investments in closed end private equity and infrastructure funds, though new allocations to these asset classes will be made via BCPP Ltd; and
- investments in pooled property funds, though new allocations to property may be made via BCPP Ltd once suitable sub-funds have been established and existing pooled investments may be transferred to BCPP Ltd once a cost effective way of transferring is established.

The Fund's passively managed investments will remain outside of BCPP Ltd because the legal structure in which they are held (i.e. life policies) is the most cost effective structure currently available, and effectively prevents transfer to BCPP Ltd. However, since April 2016, the Fund has benefited from joint procurement arrangements which Legal and General entered into with the administering authorities collaborating to establish BCPP Ltd.

The Fund's investments in closed end funds (i.e. private equity and infrastructure) will remain with the Fund for the remaining fixed life of these investment vehicles, until all assets have been returned to the Fund. There is no liquid secondary market for these types of investment and there is a risk that sales would only be possible at material discounts to net asset value. Therefore, the Panel is of the view that it is in the best interests of the Fund to retain these investments.

Any assets not invested in BCPP Ltd will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

Other use of collective investment vehicles

Since 2011, the Fund has only invested via pooled investment vehicles. The biggest provider of investment management services to the Fund, Legal and General, is one of Europe's largest asset managers and a major global investor, and the Fund has benefited from economies of scale achievable from such a provider.

The authority's approach to shared services

From January 2018, the Fund's LGPS administration (member services) has been provided by South Tyneside Council as part of a shared service with Tyne and Wear Pension Fund (TWPF).

Proposed merger with TWPF

At the time of preparation of this statement, a proposal has been made to merge the assets and liabilities of the Fund into TWPF, subject to statutory consultation and Parliamentary approval. If the legislation is passed in line with the proposal, the Fund will cease to exist as a separate entity, and the obligation to set the investment strategy will transfer to South Tyneside Council, as administering authority of TWPF, from the date the merger legislation comes into force.

Social, environmental or corporate governance policy

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Panel considers the Fund's approach to responsible investment in two key areas:

- sustainable investment/ESG factors, by considering the financial impact of environmental, social and governance (ESG) factors on its investments; and
- stewardship and governance, by acting as responsible and active investors, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Panel's view can be summarised as follows:

- the Panel believes that good corporate governance and the informed use of voting rights are an integral part of the investment process that can improve the performance of the companies in which the Fund invests;
- it is important that use of voting rights is carried out in an informed manner, and the investment manager(s) or a specialist share voting adviser are best placed to undertake this;
- the process through which the Fund appoints a manager includes an assessment of each candidate's approach to corporate governance;
- the Fund's public equity investment manager's policy on corporate governance and use of voting rights is reviewed by the Panel periodically;
- the Fund's UK equity investment manager must be a signatory to the UK Stewardship Code issued by the Financial Reporting Council;
- the Fund's public equity investment manager should apply the principles of the UK Stewardship Code to overseas holdings;
- the Panel reviews ESG ratings for each manager provided quarterly by Mercer; and

- the Panel periodically reviews the responsible investment and share voting policy of its equity investment manager and requires the manager to vote the Fund's effective shareholdings in accordance with the manager's own policy.

To date, the Panel has not taken into account non-financial factors when selecting, retaining, or realising its investments. The Panel understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

The Fund does not hold any assets which it deems to be social investments.

To date, the Panel's approach to social investments has largely been to delegate this to the Fund's investment managers as part of their overall ESG duties.

Scheme members have the option of paying additional voluntary contributions. When doing so, scheme members must choose between a number of different types of investments, one of which is an ethically screened portfolio.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Panel has delegated the exercise of share voting rights for the Fund's effective public equity holdings to its investment manager, Legal and General, to vote in accordance with Legal and General's own policy.

The Panel reviews Legal and General's share voting policy periodically. The Panel considers that the Fund's and Legal and General's interests are aligned, as both seek to enhance long term shareholder value.

The Fund encourages Legal and General to vote shares in all markets, where practical.

Stewardship

The Panel requires Legal and General to comply with the UK Stewardship Code.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) through which it collectively exercises a voice across a range of corporate governance issues.

Appendices

Appendix A Compliance with CIPFA's *Investment Decision-Making in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*

Appendix B The Fund's investment manager arrangements and benchmarks

Appendix C Long term expected returns

APPENDIX A

Compliance Statement

Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 effectively required administering authorities to state the extent to which they complied with the six principles of investment practice set out in the document published in December 2009 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called *Investment Decision-Making in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*, and give the reasons for not complying where they do not do so. The 2016 Investment Regulations are silent on this requirement, but CIPFA nevertheless recommends that a Compliance Statement be appended to the ISS.

Statement of Compliance with Myners Principles

Details of the Fund's compliance are described below.

Principle 1: Effective decision making

Administering authorities should ensure that:

- *decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation*; *and*
- *those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*

Northumberland County Council Pension Fund has a dedicated pensions committee, known as the Pension Fund Panel, which is supported by suitably experienced and qualified officers, the Fund actuary and an independent investment adviser. Other specialist advisers are employed to provide advice on specific issues such as performance measurement. External advice is obtained as required when appropriate in-house expertise is not available.

The Fund's Training Strategy provides the opportunity for members to attend externally run courses such as the tailored three-day training course run by the Employers' Organisation for Local Government. This is in addition to the information provided in Pension Fund Panel papers, and by investment managers and advisers at the meetings. Tailored training is organised, for example on infrastructure as an asset class, when a decision on a particular issue is planned. This provides Panel members with sufficient knowledge to be able to evaluate and challenge the advice they receive.

The investment adviser (who was selected and appointed by the Pension Fund Panel) attends all meetings to provide advice, other than those meetings where attendance would result in conflict of interests.

The Panel focuses on setting the strategy for the Fund and monitoring performance. The Panel delegates the day-to-day investment decisions to external investment managers.

The Panel and the administering authority review the Panel's structure and composition when necessary.

The Fund maintains a Governance Policy and Compliance Statement in accordance with regulation 55 of the Local Government Pension Scheme Regulations 2013. This contains further details of the decision making processes.

Panel papers are despatched to members to be received at least 5 days in advance of each meeting to allow members sufficient time to read the papers.

Conflicts of interests are managed actively. At each Panel meeting, elected members are asked to highlight conflicts of interests.

Principle 2: Clear objectives

An overall investment objective(s) should be set out for the fund that take account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.

The Investment Strategy Statement and the Funding Strategy Statement define the Fund's primary funding objectives. A long term view is taken in setting those objectives.

Asset-liability modelling is undertaken by the investment adviser to aid the setting of investment strategy and to ensure that the Panel understand the risks. The Fund has a scheme-specific investment strategy (i.e. a customised benchmark).

The Pension Fund Panel's attitude to risk is taken into account in setting the investment strategy.

Reviews of investment strategy focus on the split between broad asset classes, i.e. equities, bonds and alternative investments.

Investment management agreements set clear benchmarks and risk parameters and include the requirement to comply with the Fund's Investment Strategy Statement (formerly the Statement of Investment Principles).

The appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contracts.

The Funding Strategy requires specific consideration of the covenants of the Fund's participating employers when setting the employer contribution rates and the need to maintain stability in employer contribution rates.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The Fund takes advice from the actuary regarding the nature of its liabilities. Asset-liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength when assessing risk tolerance. Asset-liability modelling is undertaken by the investment adviser who obtains information from the actuary regarding liabilities to use in the model. All risk measurement in this context is performed with reference to the liabilities.

The funding strategy for the Fund is expressed in relation to the solvency of the Fund. Consideration is given to the affordability of employer contributions at the actuarial valuation.

The Pension Fund operates within the internal control arrangements administered by the County Council which are subject to internal and external audit. The external auditors report annually to the Pension Fund Panel and the County Council's Audit Committee.

The County Council maintains a risk register which includes risks relating to the Pension Fund. The risk register is reported to the NCC Executive Team.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

The performance of the Fund and of the individual fund managers is monitored quarterly by officers, the investment adviser and the Pension Fund Panel. Investment managers are given specific performance and risk targets and these are assessed as part of the monitoring process.

The Pension Fund Panel monitors performance against planned activities shown in the Northumberland County Council Pension Fund annual Action Plan and reviews the appointment of advisers when appropriate.

Training and attendance of Pension Fund Panel members are monitored and reported on a regular basis.

Principle 5: Responsible ownership

Administering authorities should:

- *adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents*
- *include a statement of their policy on responsible ownership in the statement of investment principles*
- *report periodically to members on the discharge of such responsibilities.*

For all public equity holdings, the Fund delegates its share voting to the relevant manager i.e. Legal and General.

The Fund's policy on responsible ownership is included in the Investment Strategy Statement.

The Fund's annual report and accounts reproduces the Investment Strategy Statement in full. The annual report and accounts and the Investment Strategy Statement is available on the website, and is sent to members on request.

Principle 6: Transparency and reporting

Administering authorities should:

- *act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives*
- *provide regular communication to scheme members in the form they consider most appropriate.*

The Fund's policy statements, including its Investment Strategy Statement, Funding Strategy Statement, Communication Strategy Statement and Governance Policy and Compliance Statement are maintained regularly. Stakeholders are consulted on changes, as appropriate. Documents are available on the Northumberland County Council website.

The Fund produces an annual report and accounts in which the key documents (listed above) are reproduced in full. A copy of the annual report is sent to all participating employers and it is published on the website.

There is a regular (usually annual) meeting held for employers, and a representative of the (non-County Council) employers sits on the Pension Fund Panel.

The Fund produces regular newsletters for pensioner members and for active members and briefings for employers. The website is updated regularly.

Agenda papers for the Pension Fund Panel are published on the website.

APPENDIX B

The Fund's investment manager arrangements and benchmark

Legal & General Investment Management	UK Equities	To track the sterling total return of the FTSE All Share Index to within +/- 0.25% per annum for two years in three
Legal & General Investment Management	North American Equities	To track the sterling total return of the FTSE World North America Index to within +/-0.5% per annum for two years in three
Legal & General Investment Management	North American Equities GPB currency hedged	To track the sterling total return of the FTSE World North America Index hedged to within +/-0.5% per annum for two years in three
Legal & General Investment Management	Europe ex UK Equities	To track the sterling total return of the FTSE Developed Europe (ex UK) Index to within +/- 0.5% per annum for two years in three
Legal & General Investment Management	Europe ex UK Equities GPB currency hedged	To track the sterling total return of the FTSE Developed Europe (ex UK) Index hedged to within +/- 0.5% per annum for two years in three
Legal & General Investment Management	Japanese Equities	To track the sterling total return of the FTSE Japan Index to within +/- 0.5% per annum for two years in three
Legal & General Investment Management	Asia Pacific ex Japan Equities	To track the sterling total return of the FTSE Developed Asia Pacific (ex Japan) Index to within +/- 0.75% per annum for two years in three
Legal & General Investment Management	Emerging Market Equities	To track the sterling total return of the FTSE Emerging Index to within +/- 1.5% per annum for two years in three
Legal & General Investment Management	Global Equities	To track the total return of the FTSE RAFI All World 3000 Index Fund to within +/- 1.0% per annum for two years in three
Legal & General Investment Management	Index-Linked Gilts	To track the sterling total return on the FTSE Actuaries Index-Linked Over Five Year Index to within +/-0.25% per annum for two years in three
Legal & General Investment Management	Investment grade credit	To track the Markit iBoxx £ Non-Gilts (ex-BBB) Index to within +/-0.5% per annum for two years in three
Wellington Management	Global Total Return Fund	To outperform the Bank of America Merrill Lynch 3 Month T-Bill Hedged to GBP by 4.0 to 6.0% p.a.
Wellington Management	Multi Sector Credit Fund	To achieve an absolute return of 6% p.a. net of fees
BlackRock	UK property	To outperform the IPD UK All Balanced Funds Index by 0.5% p.a.
Schroder	UK property	To outperform the IPD UK All Balanced Funds Index by 0.5% p.a.
Rockspring Hanover	UK property	To outperform the IPD UK All Balanced Funds Index by 0.5% p.a.
Morgan Stanley	Private Equity Fund of Funds (Private Markets III, IV and GDO Fund)	To outperform the FTSE All World Index
Neuberger Berman	Private Equity Fund of Funds (Crossroads Fund XVIII and XX)	To outperform the FTSE All World Index
Pantheon	Private Equity Fund of Funds (Global Select 2017)	To outperform the FTSE All World Index

Global Infrastructure Partners	Infrastructure GIP Fund II	To achieve an internal rate of return of 8% p.a. net of fees
Antin Infrastructure Partners	Infrastructure Antin Fund II	To achieve an internal rate of return of 8% p.a. net of fees
Pantheon	Infrastructure Pantheon Fund III	To achieve an internal rate of return of 8% p.a. net of fees

APPENDIX C

Long term expected returns

Asset class	Return (% p.a.)	Absolute volatility (% p.a.)
Developed global equities	5.4	18.4
Emerging market equities	7.1	28.8
Long dated index-linked gilts	0.6	8.7
All stocks corporate bonds	1.8	3.2
Conventional property	4.0	14.1
Private equity	7.7	24.2
Infrastructure unlisted equity	5.1	14.7

The table above shows the absolute expected returns (10 year geometric averages), net of fees, and the absolute volatilities (first year's standard deviations) as at 30 June 2019.