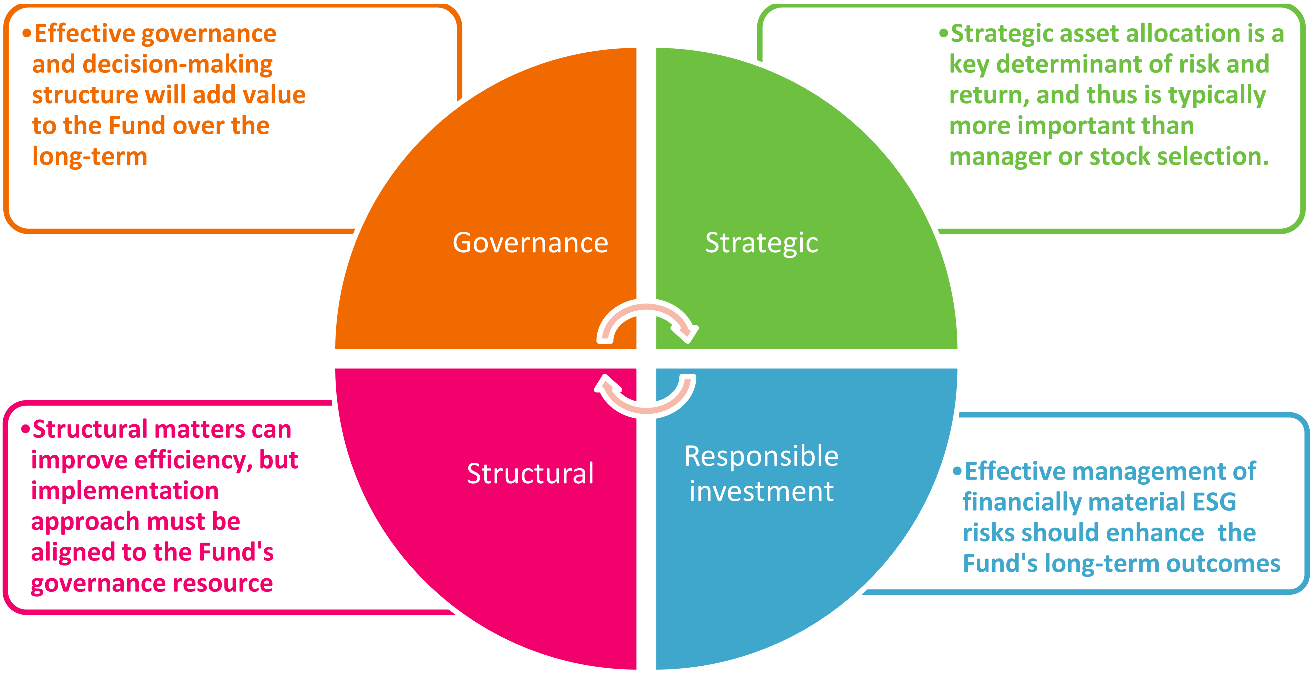
Norfolk Pension Fund investment beliefs

The Committee of the Norfolk Pension Fund ("the Fund") strongly believe that well governed pension schemes benefit from improved outcomes over the long-term. They also take the view that a clear set of investment beliefs can help achieve good governance by providing a framework for all investment decisions.

The Committee has four headline beliefs, with a number of sub-beliefs sitting underneath these headlines. 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.

Chart 1: Headline beliefs



Governance

- A well-run Fund offers a number of benefits, most notably improving funding outcomes, but also to the local economy given a large number of people in the area relies on the Fund for their pension and the local employer base.
- Clear and well defined objectives are essential to reflect the Fund's long-term[1] strategic direction of travel and to help build a plan for achieving these objectives.
- The Committee supports long term investing as a means of enhancing returns, reducing transaction costs and encouraging improved governance at a corporate level.
- There are a number of factors that lead to good decision making, most notably taking a long-term approach to any decisions, Members' having a clear understanding of their fiduciary duties and the Committee and Officers having the appropriate levels of knowledge and understanding, hence the Fund's commitment to high quality Member training.

[1] The Committee view long-term as typically being greater than 15 years, medium-term typically being between 3-15 years and short-term being less than 3 years

- Fees and costs matter. It is important to get the best value from the Fund's providers and to understand and minimise, as far as possible, any cost leakages from the investment process.
- The Committee believes in full and transparent disclosure of investment and administration costs. It recognises the importance of adequate resources to operate effective financial reporting and controls and effective and efficient provision of scheme administration and related activities. It recognises the importance of these functions in facilitating and demonstrating good oversight and governance to multiple stakeholders.
- The Fund should maintain access to skilled, high quality internal and external professional advice to support effective implementation and management of its investment and administration activities.

Strategic

- Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy. The information in the Fund's Funding Strategy Statement should be taken into consideration when setting investment strategy.
- Employer covenant is a factor when it comes to setting investment strategy. In most cases, the strength of employers' covenants allows the Fund to take a long term view of investment strategy. However, it is appreciated there may be certain employers when a short-term to medium-term horizon is more appropriate and there is a need to develop technical solutions to accommodate this.
- Ongoing risk assessment is essential. This assessment can take many forms including (but not limited to):
    - to understand progress relative to the long-term plan at a whole Fund level,
    - the implications of the increasing diversity and maturity of the Fund's underlying employers, including the impact on the Fund's net cashflow position, and;
    - the risks associated with the Fund's managers and counterparties.

Structural

- 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.
- Markets are not always efficient, which can create opportunities for investors. For the majority of such opportunities, the Fund's investment managers are likely to be in the best position to exploit them.
- Equities are expected to generate superior long-term returns relative to government bonds.
- Alternative asset class investments are designed to further diversify the Fund and improve its risk-return characteristics. A premium return (net of fees) is required for any illiquid investments.
- Currency volatility increases the Fund's risks and therefore should be managed.
- Active management can add value but it is not guaranteed. If accessing active management, it is important that a manager's philosophy and processes are well defined, fees are good value and the manager is given an appropriate timescale to achieve their performance target.
- Passive management has a role to play in the Fund's investment structure, most notably in more efficient investment markets.
- Transitions between managers and asset classes can result in considerable transaction costs and market risks. it is important such transitions are carefully managed.

Responsible investment

- Effective management of financially material environmental, social and governance (“ESG”) risks should enhance the Fund's long-term outcomes.
- The Committee prefer to take a holistic approach to ESG matters, rather than to focus on single issues.
- Proactive engagement with the companies in which the Fund invests is the most effective means of understanding and influencing their social, environmental and business policies.
- Investment managers should sign up and comply with the Financial Reporting Council’s Stewardship Code. If they are not signed up, there should be a clear response as to why not.
- The Fund’s investment managers should review investee companies’ approaches to employee rights and the risks within this. Managers should engage with companies where they believe there is room for improvement. This should be done on a global basis and reported on at least six-monthly. The Committee will hold the managers to account on the level and quality of their engagement.