Statement of Investment Principles

This is the Statement of Investment Principles (the "Statement") required by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (the "2010 Regulations"). The Statement adheres to the requirements set out in the these regulations, in line with best practice.

The Statement has been adopted by the Pension Fund Sub Committee (the "Committee"), which acts on the delegated authority of the Orkney Islands Council, the administering authority for the Orkney Islands Council Pension Fund ("the Fund"). The Statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the Committee has consulted with the administrating authority and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (details of which are set out in the Fund's CIPFA Adherence document, attached to this Statement). The strategic benchmark is reflected in the investment structure adopted by the Committee; this comprises a mix of segregated and pooled investments. The Fund benchmark is consistent with the Committee'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 Committee monitors investment strategy relative to the agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

Limits on Investments

In 2010, the Committee agreed to increase the limit on investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body, from 25% to 35% (the upper limit specified in Schedule 1 of the 2010 Regulations). Before taking this decision, the Committee took appropriate advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The Committee made this decision on the basis that investment in the pooled funds concerned was effective both in terms of cost and in terms of broader portfolio diversification within the pooled funds concerned.

This decision was reviewed as part of the 2018/2019 investment strategy review which proposed changes to the Fund structure and the exposure to underlying pooled funds. The investment strategy review carried out in 2021 concluded the strategy remained appropriate. The Committee continues to believe the upper limit is appropriate and has also taken written advice on this matter. Note, under the new target investment strategy the Fund is expected to fall within this 35% limit, however, this is a gradual process and therefore the position will be reviewed on a regular basis and at least on a triennial basis.

Types of investment to be held

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, corporate bonds, alternative credit, cash, property, infrastructure and commodities, either directly or through pooled funds.

The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

Balance between different kinds of investments

The Committee has appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business in respect of various different asset classes.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that it is consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of appropriate investments which reflect their views relative to their respective benchmark. Within each major market and asset class, each manager will maintain appropriately diversified portfolios through direct investment or pooled vehicles.

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

Funding risks:

- **Financial mismatch**
    - The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities.
    - The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- **Changing demographics** –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- **Systemic risk** - 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 Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee will also consider rebalancing the asset allocation if it is deemed to deviate significantly from the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- **Concentration** - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- **Illiquidity** - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- **Manager underperformance** - The failure by any of the Fund's managers to achieve the rate of investment return assumed in setting its mandate.
- **Currency risk** – 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)** - The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision-making, leading to underperformance relative to expectations.
- **Climate** - The extent to which climate change causes material deterioration in asset value due to factors including, but not limited to: policy change, physical impacts, and the expected transition to a low-carbon economy.

The Committee manages asset risks as follows:

- It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment approaches each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committees' expected parameters.
- By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. The Committee previously diversified its manager underperformance risk following amendments to the Fund strategy and structure. This helped to reduce the concentration risk the Fund was previously exposed to.
- By investing across a number of investment managers, the Fund has reduced their risk exposure to the underperformance of one manager.
- The Committee's approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- **Transition risk** - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- **Custody risk** - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- **Credit default** - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund.

Realisation of investments

The majority of assets held by the Fund may be realised quickly if required.

Environmental, Social and Governance (ESG) Considerations

The Committee recognises that ESG issues are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The managers have produced statements setting out their policies in this regard. The managers have been delegated by the Committee to act accordingly. The Committee requires all managers appointed to manage assets for the Fund to be signatories to the United Nations Principles for Responsible Investment (UN PRI). The principles are set out in the appendix to this document.

Financially material considerations

The Committee recognises that the consideration of financially material factors, including ESG factors and climate risk, are relevant to the development, selection and monitoring of the Fund's investment options.

Exercise of Voting Rights

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by it with the objective of preserving and enhancing long term shareholder value alongside ensuring that investments meet the ESG considerations outlined in their policy statements in this regard. Papers to Committee will include information on voting, engagement and disinvestment activity which seeks to effect change on ESG considerations. Accordingly, where applicable each manager is required to produce written guidelines of its process and practice in this regard. Each manager is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Committee, which includes both pooled and segregated holdings.

Within segregated mandates, the Committee has absolute discretion over whether stock lending is permitted. The Committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Committee has decided not to permit stock lending within any of its segregated investment mandates.

Managers may undertake a certain amount of stock lending on behalf of unitholders within its pooled fund holdings. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. The Committee has no direct control over stock lending in pooled funds; nevertheless, it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

The Committee reviews its policy on stock lending (including the amount and type of collateral used) on a regular basis.

Additional Voluntary Contributions (AVCs)

The Committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

CIPFA Compliance

The Committee has set out details of the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication, 'Investment Decision Making and Disclosure in the Local Government Pension Scheme – a guide to the application of the Myners Principles' in the Fund's CIPFA Adherence document which is attached to this Statement.

Signed For and on Behalf of the Pension Fund Sub Committee of the Orkney Islands Council as Administering Authority for the Orkney Islands Council Pension Fund

Position	Position

Appendix – UN Principles for Responsible Investment

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, investors publicly commit to adopt and implement them, where consistent with their fiduciary responsibilities. They also commit to evaluate the effectiveness and improve the content of the Principles over time. They believe this will improve the ability to meet commitments to beneficiaries as well as better align investment activities with the broader interests of society.

The six principles are as follows:

Principle 1
We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2
We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3
We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4
We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5
We will work together to enhance our effectiveness in implementing the Principles.

Principle 6
We will each report on our activities and progress towards implementing the Principles.

Orkney Islands Council Pension Fund

Statement of Compliance with the CIPFA Principles

November 2022 Version 2022 V11

Prepared by the Pension Fund Sub Committee of Orkney Islands Council

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CIPFA Principles of Investment Practice

This document forms the Statement of Compliance with the Principles of Investment Practice as set out by CIPFA, the Chartered Institute of Public Finance Accountancy. It is maintained by Hymans Robertson LLP and the Head of Finance on behalf of the Pension Fund Sub Committee ("the Sub Committee") of Orkney Islands Council.

This document was brought into force on 30 June 2003. The practices described within this document form the basis for investment decision making by the Sub Committee. This document is reviewed from time to time, and is made available to members on request. Details of version control and changes are provided in the Appendix to this document.

The document also provides information on all of the Fund's investment service providers (investment manager(s), custodian(s), adviser(s), etc.) along with details of the nature of the services they provide and how their performance in these roles is assessed.

This is current version of the document (2022 V11) and was agreed by the Committee Members in November 2022.

Signed:

Chairman of the Pension Fund Sub Committee

Orkney Islands Council Pension Fund

November 2022

1 Effective decision making

Principle

Administering authorities should ensure:

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

Orkney Islands Council

The Council is responsible for the following activities.

- The Council will determine the allocation of new money to the managers. Similarly, in the event that assets need to be realised in order to meet the Fund's liabilities, the Council will determine the source of this funding.
- The Council will be responsible for any changes to the terms of the mandates of existing managers.
- The Council will be responsible for the appointment and termination of managers.
- The Council is responsible for socially responsible investment, corporate governance and shareholder activism. It has delegated these tasks to the Fund's managers, who conduct the delegated tasks in line with the Council's policies.
- The Council will be responsible for the appointment and termination of AVC providers.
- The Council is responsible for maintenance of the Statement of Investment Principles (SIP) and the document setting out the Fund's CIPFA Principles of Investment Practice disclosure.

The Council has delegated the Fund's monitoring responsibilities to the Pension Fund Sub Committee.

Pension Fund Sub Committee Terms of Reference

The Sub Committee is responsible for monitoring all aspects relating to the investment of the assets of the Fund. Their specific responsibilities are as follows:

- The Sub Committee will formally review the Fund's asset allocation at least annually, taking account of any changes in the profile of Fund liabilities and any guidance regarding tolerance of risk. They will recommend changes in asset allocation to the Council.
- The Sub Committee will consider and monitor the Quarterly Reports produced by their Investment Manager and investment Consultant. In addition to managers' portfolio and performance reporting, the Sub Committee will also receive and review information from the managers on risk analysis, transaction costs, and details of corporate governance (including ESG matters).
- The Sub Committee will formally review annually each mandate, and its adherence to its expected investment process and style. The Sub Committee will ensure that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale.
- The Sub Committee will consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) at least annually.
- In the event of a proposed change of managers, the Sub Committee will evaluate the credentials of potential managers.

- The Sub Committee will monitor the Fund's approach to Environmental, Social and Governance (ESG) issues.
- The Sub Committee will regularly review the Fund's AVC arrangements. If they consider a change is appropriate, they will make recommendations to the Council.
- The Sub Committee will monitor the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually. The Sub Committee will be responsible for the appointment and termination of providers.
- The Sub Committee will conduct and conclude the negotiation of formal agreements with managers, custodians and other investment service providers.
- In order to fulfil their roles, the members of the Sub Committee will be provided with appropriate training, initially and on an ongoing basis.
- The Sub Committee is able to take such professional advice as it considers necessary.
- The Sub Committee will keep Minutes and other appropriate records of its proceedings, and circulate these Minutes to the Council.
- The Sub Committee may also carry out any additional tasks delegated to it by the Council.

Any changes to the membership of the Sub Committee require the approval of the Council.

Membership of the Sub Committee consists of a minimum of seven members with a quorum of three members. All Sub Committee members are expected to have or, for new members, to develop sufficient expertise in investment matters to be able to conduct their Sub Committee responsibilities and to interpret the advice which they receive.

Other Delegated Investment Decisions

Delegation to Officers

Preparation of annual budgets and business plan for the Fund.

Delegation to Investment Managers

Day to day management of the Fund's investment portfolios and related activities has been delegated to the Fund's investment managers. This includes:

- Investment of the Fund's assets.
- Tactical asset allocation around each mandate's benchmark within agreed guidelines.
- Preparation of quarterly reporting including a review of investment performance and where relevant, voting, and engagement activity in relation to ESG considerations and the purchase, retention and disinvestment of assets.
- Attending meetings of the Investment Sub Committee.
- Providing Fund accounting data concerning the investment portfolio and transactions.

Details of the appointed managers can be found in Section 2.

Delegation to Custodian

The appointed Custodian, where necessary, is responsible for settlement of all investment transactions, collection of income, tax reclaims and corporate action administration. However, the Fund also directly invests in a range of pooled funds which have their own underlying custody arrangements.

Actuary to the Fund

The Actuary is responsible for

- Undertaking a triennial valuation of the Fund’s assets and liabilities.
- Setting the Fund’s contribution rate.
- Providing advice on the funding level and maturity of the Fund which the Pension Fund Sub Committee can take into consideration when balancing the Fund’s investment and funding objectives.

Expert Advice

- The Sub Committee receives investment and actuarial advice from Hymans Robertson LLP.
- At the time of appointment of consultants, the Sub Committee did not invite tenders for actuarial and investment advice separately. The Sub Committee will arrange for separate competition when it next tenders either activity.
- At present there are no separate contracts in place.

Other Advice

- In addition to the investment consultant, the Sub Committee also seeks advice (where relevant) from the Fund’s Actuary and the Council’s Head of Finance.
- There are no independent advisers appointed to the Pension Fund Sub Committee.

Assessment of Advice

All advice is assessed as described in Section 4.

2 Investment objective

Principle

An overall investment objective should be set out for the fund that takes 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.

Fund Objective

The Fund is a Local Government Pension Scheme (LGPS).

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. Benefits for active members increase in line with salaries. Benefits for preserved members are subject to statutory increases.

The Council aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer (Orkney Islands Council) to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

Basis of Evaluation

An actuarial valuation of the Fund is conducted at least every three years in accordance with the LGPS regulations. The last actuarial valuation was conducted as at 31 March 2020. The results disclosed an ongoing funding level of 118%.

The position of the Fund is monitored each year in consultation with the employers and the Actuary.

Strategic Asset Allocation and Manager Structure

The Fund's investment strategy and manager structure was formally reviewed in 2021 following the completion of the 2020 actuarial valuation.

The strategy review provided assurance that the interim and long-term strategies remained appropriate in the context of the Fund's long-term objectives.

The Fund's investment manager arrangements are summarised in Table 2.1 below:

Table 2.1

Manager	Appointed	Brief	Interim Target %	Long-term target %
Baillie Gifford	April 1995	Multi-asset	75	60
Barings	October 2019	Private Debt	5	10
IFM	October 2019	Infrastructure	5	10
Legal and General	May 2020	Bonds	15	20

Custody

The Fund's custodian is the Bank of New York Mellon.

Baillie Gifford

Baillie Gifford's mandate was formally reviewed as part of the 2018/19 exercise with a new strategy and structure implemented during Q4 2019 and Q1 2020 and subsequently reviewed in 2021. Previously responsible for managing all assets within the Fund across a multi-asset mandate, under the new arrangement Baillie Gifford will focus solely on managing the Fund's growth mandates i.e. UK equities, global equities and diversified growth funds. The target allocation was reduced from 90% to 75% following the implementation of the bond mandate in May 2020 with a further reduction planned to move to a long term target of 60%.

Barings

Following the 2018/19 investment strategy review and a subsequent procurement exercise, Barings were appointed as the Fund's Private Debt manager in October 2019. The manager continues to build towards the new target allocation as commitments are drawn down by the underlying private debt fund. A further commitment to the manager was agreed in 2021 to bring them towards their 19% long-term target.

IFM

Following the 2018/19 investment strategy review and a subsequent procurement exercise, IFM was appointed as the Fund's infrastructure manager in October 2019. The commitment was drawn down in December 2021 and represented c5% of total assets. The Fund has a long-term strategic allocation of 10% to infrastructure. The Committee explored potential options to increase the infrastructure allocation in the first half of 2022. In September 2022, the Committee held a manager selection meeting with short-listed managers, and it was agreed to invest in the IFM Net Zero Infrastructure Fund to move the Fund towards the 10% long-term target.

Legal and General

Following the procurement exercise, through the National Passive Framework, Legal and General were appointed as the passive bond specialist for the Fund. The manager was appointed in Q1 2020 with an initial target allocation of 15%. Timing of a move towards the long-term target of 20% is still to be agreed.

The target allocations and ranges that currently apply to each of these mandates are shown in Table 2.2. The associated benchmarks for the Scheme and mandates are addressed in Table 2.3.

Table 2.2

Asset Class	Interim Target (%)	Range (%)	Long-term target %
UK Equities	*8.0*	46-56	7.0
Overseas Equities	*43.0*		36.0
Diversified Growth Funds	24.0	19 - 29	17.0
Total Growth	**75.0**	**65-85**	**60.0**
Infrastructure	5.0	N/A	10.0
Private Debt	5.0	N/A	10.0
Total Income	**10.0**	**N/A**	**20.0**
UK Gilts	7.5	2.5 – 12.5	10.0
Index-linked gilts	7.5	2.5 – 12.5	10.0
Cash	0.0	0 - 10	0.0
Total Protection	**15.0**	**5-25**	**20.0**
Total	100		100

The managers oversee their respective mandates in line with the LGPS regulations. There are no restrictions in place with manager agreements which prevents them from investing in any financial instrument permitted in these regulations, except to the extent that derivative instruments may only be used on a segregated basis for the purposes of risk reduction and efficient portfolio management.

The Sub Committee recognises that the pursuit of superior performance through active management also carries the risk of underperformance. However, they believe and the relevant manager(s) accept that the guidelines set will contain risk within the tolerance that the Sub Committee deems acceptable.

The Sub Committee has considered the extent to which their managers expect to achieve outperformance through stock and sector selection and asset allocation. They have considered the risks associated with stock and sector concentration in each of the markets in which they invest.

For the relevant mandates the managers will provide details on the levels of turnover and commission levels on a quarterly basis. Furthermore, it is the expectation that all managers will provide transparent cost information to enable the Sub Committee to monitor transaction costs (in line with the transaction cost reporting framework of the Fund Management Association).

As part of the provision of transparent information, the Fund requires managers, where relevant, to disclose the use of soft commission arrangements.

The Sub Committee takes advice from its investment consultant relating to manager’s transaction costs.

Benchmarks

Each manager is assigned an appropriate benchmark with a composite benchmark constructed to assess the Fund's performance at Scheme level.

The benchmark is used

- To evaluate each manager's relative performance
- To monitor the extent of each manager's deviations from benchmark performance

At the asset class level, the manager's activity is assessed relative to specific stock market indices (e.g. the FTSE All-Share index for UK equities).

The use of benchmarks for assessing managers, providers, officers and the Sub Committee is discussed in Section 4.

Benchmark Indices

The Sub Committee discusses the appropriateness of the asset class indices with its investment managers and investment consultant on an annual basis. The review takes account of changes in the constituency of indices, their degree of concentration, changes made by index providers, new classes of assets, and changes in the profile of liabilities which may affect the duration of bond indices. The benchmarks currently in place are set out in the table below. Please note the Fund will be gradually moving to the long-term target as the private debt and infrastructure mandates draw down capital where the same benchmark indices will apply:

Table 2.3

Asset Class	Interim Target (%)	Benchmark
UK Equities	8	FTSE All Share
Overseas Equities	43	MSCI All Countries World
Alternatives	24	UK base rate +3.5% p.a.
Infrastructure	5	Absolute 8.0% p.a.
Private Debt	5	Absolute 8.0% p.a.
UK Gilts	7.5	FTSE UK Gilts All Stocks
Index-linked gilts	7.5	FTSE Over 5 years index-linked gilts
Total	100	Composite

The Sub Committee recognises that the setting of index benchmark targets can encourage managers to closet index, i.e. to hug the index too closely to be able to deliver the performance target set. The Sub Committee has discussed this subject where relevant with its managers and investment consultant. In setting tracking error guidelines, the Sub Committee has indicated limits to its manager so that the risk it takes is consistent (i.e. neither too little or too great) in relation to its performance target. The Sub Committee monitors the manager's tracking error (see Section 4).

Investment Structure

The Sub Committee has considered its investment structure, the choice between active and passive management, the number of managers it might employ, and where risk might best be exploited.

The Sub Committee has appointed specialist managers for each asset class within the benchmark allocation, thereby diversifying the manager risk.

Baillie Gifford are the active manager responsible for all growth assets. Legal and General were appointed to passively manage the Fund's bond allocation whilst IFM and Barings manage the infrastructure and private debt allocations respectively.

As the active growth manager within the Fund, Baillie Gifford are responsible for managing each of their growth mandates around their assigned benchmarks within the guideline set.

In choosing to diversifying by number of managers and style in the form noted above, the Sub Committee has considered, and is prepared to tolerate the potential risks associated with the Funds overall pursuit of outperformance.

3 Risk and liabilities

Principle

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.

Basis for Determining Fund Benchmark

The Benchmark of the Fund is bespoke and reflects the objectives and circumstances of the fund.

The asset mix takes account of diversification between asset classes.

The Investment Managers have their own individual benchmarks as outlined in Section 2. The individual manager benchmarks are subsequently used to construct an aggregate Scheme benchmark.

Risk

The return assumptions required to achieve and maintain the Fund Objective are set out in the Actuarial Valuation. The benchmark adopted by the Sub Committee for the Fund is designed to achieve that return over the long term. The Sub Committee recognises that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.

Asset Classes

In setting the Scheme benchmark, the Sub Committee considered all the principal asset classes listed in the CIPFA Guidance.

Periodic Review

The Sub Committee most recently reviewed the Fund benchmark at their meeting in April 2021.

4 Performance assessment

Principle

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.

Investment managers

Managers provide summaries and detailed portfolio valuations, consolidated transaction reports and balance sheet and income statements on a regular basis. They also provide details of performance. The Sub Committee obtains regular performance and manager monitoring from Hymans Robertson LLP with effect from 1 April 2017.

Manager Monitoring Activity

The Sub Committee monitors the relative and absolute performance of its investment managers on a quarterly basis. However, more formal reviews also take place with the Fund undertaking more formal reviews of each manager annually.

These reviews consider not only investment returns but also an assessment of the managers' adherence to its mandate requirements including the full range of activities delegated to them. The Sub Committee also considers the manager's investment process, stability of key personnel, market position and Environmental, Social and Governance considerations.

Investment Consultant Monitoring Activity

The Sub Committee monitors performance of its investment consultant, Hymans Robertson, at regular intervals (usually annually) against the CMA investment consultant objectives in place. The consultant provides guidance on asset allocation, benchmark setting, risk and goal setting of the investment managers, manager monitoring, manager selection and general information on legislation, industry background and securities markets (all from an investment perspective).

Sub Committee and Officers

The Sub Committee reviews the investment decisions undertaken by officers and by the Sub Committee, to check their appropriateness and whether outcomes might have been improved. This includes:

- How the overall Fund benchmark has performed relative to liabilities and relative to its comparable LGPS peers.
- How the Sub Committee interpreted advice provided by the investment consultant.
- Sub Committee recommendations and Council decisions undertaken over year concerning service provider and manager changes, benchmark changes, mandate changes, and transitions between mandates.
- How the managers performed on voting rights and engagement to address ESG concerns.

5 Responsible ownership

Principle

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 scheme members on the discharge of such responsibilities.

Governance and Voting

The Council has delegated the following tasks to the investment managers.

- Engaging with companies in which the Fund invests concerning ESG matters.
- The exercises of voting rights on the basis that voting power will be exercised by the manager with the objective of preserving and enhancing long term shareholder value and exposure to the risks associated with poor ESG records.

Accordingly, managers at the request of the Fund have produced written guidelines of its process and practice in both matters where relevant to the mandate.

Managers are encouraged to vote in line with these guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Engagement and Activism

As the Fund's active growth asset manager, Baillie Gifford has disclosed its own policy on ESG, engagement and activism which it exercises on behalf of client's investment mandates when the client has delegated responsibility for these activities to Baillie Gifford. It votes proxies on behalf of the Fund and engages with the companies in which it invests. Baillie Gifford reports its voting activity to the Sub Committee on a regular basis.

UN Principles for Responsible Investment (PRI)

The Sub Committee have made it a requirement that all managers appointed to manage assets on behalf of the Fund are signatories to the UN PRI. All managers appointed are a signatory under UN PRI and therefore meet this requirement.

6 Transparency and reporting

Principle

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.
- should provide regular communication to scheme members in the form they consider most appropriate.

Approach

This document should be read in conjunction with the Fund's Statement of Investment Principles. Taken together, these documents provide the framework for the Fund's investment operations.

Section 1 of this document describes the structure for making investment decisions for the Fund, the split of responsibilities among the Council, Pension Fund Sub Committee, Investment Manager, Custodian, Scheme Actuary, Investment Consultant and other providers.

Sections 2 describes the roles and mandates of external providers (consultant, investment managers, etc).

Other Advice

In addition to the investment consultant, the Sub Committee also seeks advice (where relevant) from the Fund's Actuary and the Council's Head of Finance.

There are no independent advisers appointed to the Pension Fund Sub Committee.

Assessment of Advice and Decision Making

All advice and decision making is assessed as described in Section 4.

Regular reporting

The Council makes the following documents available to Fund members on request.

- The Statement of Investment Principles.
- Details of the Fund's adoption of the CIPFA Principles of Investment Practice (i.e. this document).

Both documents are revised periodically, in any event, and when changes occur.

Appendix A - Version control record

Table of Amendments

The attached Table records changes to this document.

Version	Nature of Change	Implemented
2003 V1	Initial Creation	30 June 2003
2004 V2	Final Document	31 October 2004
2007 V3	Benchmark change	10 July 2007
2009 V4	Review document	30 June 2009
2010 V5	Update following structure change and consolidation on principles from 10 to 6	21 December 2010
2011 V6	Increase range limit on cash holding from 0-5% to 0-10%	27 September 2011
2013 V7	Regular review and update following valuation and proposal on pooled funds	28 February 2013
2017 V8	Review and update following completion of strategic review, discussions on ESG and adopting and implementation of new Fund specific benchmark	22 November 2017
2018 V9	Regular review and update following valuation	September 2018
2020 V10	Regular review and update following investment strategy review, including mandate and manager changes	February 2020
2022 V11	Regular review, including mandate and manager changes reflecting move to long term target allocations	November 2022