Investment Strategy Statement

Cornwall Council

Administering Authority for the Cornwall Pension Fund (the "Fund")

Presented to the Pensions Committee – [12th March 2020]

1. Introduction

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.
In England and Wales, such a scheme was created by the Local Government Pension Scheme Regulations 2013 (The Regulations). These Regulations were made by the Secretary of State exercising powers in the Superannuation Act 1972.

Under powers contained in The Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replaced the 2009 Investment Regulations. These regulations came into force on 1st November 2016. Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State.

These investment regulations state that authorities are required to maintain an Investment Strategy Statement (ISS) documenting how the investment strategy for the Fund is determined and implemented. The statement is regularly reviewed (at least every three years). The ISS is required to cover a number of areas, specifically:

(a) A requirement to invest money in a wide variety of investments;
(b) The authority's assessment of the suitability of particular investments and types of investments;
(c) The authority's approach to risk, including the ways in which risks are measured and managed;
(d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
(e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
(f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments.

In maintaining the Statement, the Committee have obtained and considered advice from a suitably qualified individual, employed by their investment consultants, JLT Employee Benefits (part of Mercer, a Marsh & McLennan company), whom they believe to have a degree of knowledge and experience that, is appropriate for the management of their investments.

The Committee will review the Statement at least every three years and as required with any material changes, which is more regularly than the Regulations require, but deemed appropriate.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statements
- Communications Policy Statement
- The Pension Fund Annual Report and Accounts
- Actuarial Valuation.

Background to the Fund

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Cornwall Pension Fund, in effect the LGPS for the Cornwall area to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The Cornwall Pension Fund is a participant in **Brunel Pension Partnership** which is fundamentally changing the way in which the Fund's strategic asset allocation is implemented. This is a long term strategic relationship of ten LGPS funds. How pooling impacts the Fund's investment arrangements and the authority delegated to the new company is explained in detail in this statement.

The Fund is a long-term investor with a primary objective as follows:

To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, as required by the Local Government Pension Scheme (Benefits) Regulations 2013 (as amended).

This overall objective is supplemented by the funding and investment objectives which are detailed in this document.

Cornwall Pension Fund's Investment Strategy

The following sections details the Fund's investment strategy, which takes into account Regulation 7(2) (a), 7(2) (b) and 7(2) (c); listed below:

2. Investment of money in a wide variety of investments

Regulation 7(2) (a) requires that administering authorities invest in a diversified portfolio of assets to ensure that risk is appropriately managed and volatility of overall return is reduced. The guidance that accompanies the regulations does not prescribe the specific asset classes over which Fund monies must be invested.

3. Suitability of particular investments and types of investments

Regulation 7(2) (b) requires that in assessing the strategic allocation for the Fund, an administering authority assesses the suitability of particular investments and types of investments against the need to meet pension obligations as they fall due.

Funding Objectives

The objectives of the funding strategy, as detailed in the Fund's 2020 Funding Strategy Statement, are as follows:

- To ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The assumptions used correspond with the assumptions used in the latest Actuarial Valuation. The funding position will be reviewed on a regular basis but at least at each triennial Actuarial Valuation. The Committee will be advised on the effect of any material changes to the Fund during the inter-valuation period.

Investment Strategy

Setting the Strategy

In assessing the suitability and variety of investments, and considering the risks, the starting point should be the Fund's overall objectives. The objectives for the Cornwall Fund are considered below:

The full objectives of the investment strategy are:

To achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding objectives set out above on an on-going basis.

To achieve these objectives, the Investment Strategy detailed in this document has been agreed.

The Committee has determined its investment strategy after considering the Fund's liability profile and requirements of the Statutory Funding Objective and their own appetite for risk. The Committee have also received written advice from a suitability qualified individual, employed by their investments consultants, JLT Employee Benefits (part of Mercer, a Marsh & McLennan company). Input has also been received from the Fund's independent adviser, and the Actuary; Hymans Robertson.

Against these strategic targets, the Cornwall Pension Fund regularly reviews it's Investment Strategy with an exercise completed annually as part of the business planning processes and (comprehensively at least every three years as part of the triennial valuation process) and in doing so considers the risk/return characteristics of each asset class and sub-asset class in this assessment. The Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The basis of the Committee's strategy is to divide the Fund's assets between a "growth" portfolio, comprising assets such as diversified growth funds (DGFs) and equities, an "alternatives" portfolio comprising assets such as hedge funds, private equity, property, infrastructure and private credit and a "stabilising" portfolio, comprising assets such as multi-asset credit and those assets within the risk management framework The growth/alternatives/stabilising allocation is set with regard to the overall expected return objective of the Fund's assets, which is determined by the funding objective and current funding level, as well as the risk tolerance.

The Committee recognise the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. As a result, the Committee has a "diversified growth" investment manager to select and manage the allocations across asset classes for a proportion of the Fund's assets. In addition, the Fund's assets are invested in a wide range of asset classes with different risk/return profiles.

In assessing the suitability of investments required to form the overall portfolio the Cornwall Fund considers a number of characteristics of each asset class, and sub asset class. These characteristics include potential return, risk/volatility of returns, liquidity, duration and interest rate sensitivity. In setting and reviewing an overall investment strategy for the Fund the starting point is always the Actuary's assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long-term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

Investment Decisions

The Committee distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.
The Committee takes all such decisions themselves. They do so after receiving written advice from their officers and investment consultant with independent advice on the investment consultant's recommendations being provided to the Committee by the Fund's independent advisor. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth, alternative and stabilising portfolios
  Determining the allocation to asset classes within the growth, alternatives and stabilising portfolios
- Determining the Fund benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

As part of the 2016 review of its investment strategy the Cornwall Fund created a Tactical Asset Allocation Portfolio (TAAP). This allocation is designed to essentially act as an overlay across the Fund's strategic portfolio, and take advantage of short term (approximately one year) opportunities that are consistent with the long term risk and return goals of the Fund. The TAAP became effective in September 2018.

Risk Management Framework (RMF)

The Fund's asset portfolio is exposed to several market risks such as equity, interest rate, inflation and currency risk. Some of these risks could be rewarded in certain market conditions but at other times it could be helpful to reduce volatility of the portfolio by hedging some of these risks.
The RMF is designed to identify, measure and mitigate these risks.

Stock Selection Decisions

All such decisions are the responsibility of the investment managers with which the Fund invests.

Strategic Asset Allocation

The Committee are permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- UK and overseas equities
- UK and overseas government bonds, fixed and inflation-linked
- UK and overseas corporate bonds
- Multi-asset credit (MAC)
- Convertible bonds
- Property
- Commodities
- Hedge Funds (including managed account)
- Private equity
- Infrastructure
- Private credit
- High yield bonds
- Emerging market debt
- Diversified growth
- Risk management products
- Cash

The Fund currently mainly invests in pooled portfolios. In addition, the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

Balance between different types of investments

The Regulations require the administering authority to have regard for the diversification of the Fund's investments. The Fund's strategic benchmark, detailed in this document, takes account of the risk and return characteristics of each asset class and provides a reasonable long-term balance appropriate to the liabilities of the Fund.

The Fund may invest via pooled and segregated portfolios based on the appropriateness for each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

Asset Allocation and Long Term Expected Return on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

For the purpose of the triennial funding valuation at 31 March 2019 and setting contribution rates effective from 1 April 2019, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 4.1% per annum at the time of the valuation (this was 3.9% or 1.7% above gilts at the 2016 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, the asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

Given the very long-term nature of the liabilities, it is appropriate to take a long-term view of prospective asset returns is taken. Long-term in this context would be 20 to 30 years or more.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under- or out-performance compared to the long-term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored ('Strategic Allocation').

Current Strategic Benchmark

The Fund's Investment Strategy was reviewed in 2019, and the agreed strategic benchmark is set out below. The strategic benchmark does not assume any outperformance from the investment managers. The Minimum and Maximum range allowed acts as the Fund's own limit on its investment strategy, and ensures compliance with the guidance which requires this. The expected risks and returns stated in the table overleaf are as at the date of the 2019 strategic review.

Asset Class	Strategic allocation (%)	Strategic range (%)	Absolute Expected return p.a.*	Expected 10-year Risk (Volatility) p.a. **
Growth Assets				
Developed Market Equity	**23**	**18-30**	**5.9%**	**16.8%**
- Developed Core Equity	10			
- Global Sustainable Equity	13			
Emerging Market Equity	8	2-11	6.5%	28.7%
Diversified Growth	5	0-12	4.0%	10.0%
TAA	8	2-14	4.3%	10.0%
Alternative Assets				
Hedge Funds	7.5	4-13	4.0%	7.3%
Property	7.5	4-13	3.9%	14.1%
Private Equity	5	2.5-7.5	7.5%	24.2%
Infrastructure	12	7-17	6.8%	14.6%
Private Credit	6	3-9	6.0%	3.4%
Stabilising Assets				
Multi-Asset Credit	5	0-15	3.6%	4.3%
Risk Management Framework	13	6-20	-	-
Cash	0	-	-	-

Notes:

- Expected Returns are shown as absolute return as the Actuary's discount rate now uses this approach.
- Expected Returns and expected risk figures are JLT's forecasts as at the time of modelling.
- Tactical Asset Allocation Portfolio (TAAP) is an allocation designed to take advantage of short term (approximately one year) opportunities that are consistent with the long-term risk and return goals of the Fund.

The inclusion of a diversified range of assets in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long-term return.

4. Approach to risk, including the ways in which risks are to be measured and managed

Regulation 7(2) (c) requires that funds describe their approach to risk within their investment portfolio, including summarising the key risks and detailing the approach to mitigate the risk (where possible or appropriate). It also requires that funds ensure that the approach is complicit with that in their Funding Strategy Statement.

Approach to risk

The Fund recognises that there are a number of risks that need to be factored into the Investment Strategy, and the expected estimates of volatility are reflected in the table above. The financial, demographic and regulatory risks are addressed in the Funding Strategy Statement, and so are not repeated here. This statement looks to address the financial risks for the Fund, in particular the risk of the performance of the Fund's assets not achieving the actuary's expected rate of return. The following paragraphs explain the Cornwall Fund's approach to addressing this risk.

Investing heavily in higher risk assets (e.g. equities) would be expected to increase the long term returns achievable from the assets, and thus to reduce the contributions required to Fund the liabilities over time. However, this type of strategy would be expected to lead to volatile short to medium term results, both in absolute terms and, particularly, relative to the Fund's liabilities.

Equally, whilst investing in lower risk assets (e.g., bonds) would be expected to reduce risk within the Fund (in terms of the volatility of returns, the funding level and contribution rates), this may not be desirable as it would lead to a lower expected return and hence higher contribution rates over the long term.

In considering the Fund's investment strategy, one must therefore bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, a number of these are considered below:

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

Manager Risk (including the Brunel Pension Partnership)

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any managers where concerns exist over their continued ability to deliver the investment mandate.
- The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safe keep the assets on behalf of the Fund.

- The Brunel Pension Partnership (BPP) is responsible for appointing and monitoring the managers with which the Fund invests. BPP have the appropriate mechanisms in place to allow the Fund to hold it to account. Further details can be found in section 5 below.

Liquidity Risk

- This is monitored according to the level of cash flows required by the Fund over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Fund's assets are invested in pooled funds which are readily realisable. As a result the investments in less liquid asset classes such as property, hedge funds, private equity and infrastructure are limited.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- The Fund manages this through regular reviews of the investments and through investing in funds which give a wide degree of diversification.

Corporate Governance Risk

- This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Committee from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Fund's advantage.

Legislative Risk

- This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation.
- The Committee acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Market Risk

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.
- The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers.
- As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.
- Market risk comprises of the following three types of risk:

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.

Interest rate risk and Inflation risk

This covers the following risks:

Interest rate risk -

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.

Inflation risk -

- This is the risk that the value of the Fund's liabilities which are inextricably linked to long-term expected Consumer Price Index (CPI) inflation, increase at greater rate than the assets.

- The Committee also acknowledge the interest rate risk and inflation risk related to individual debt instruments. This is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management and investing in assets that move in line with inflation such as Infrastructure.

Climate Risk

- The risk that climate change issues may negatively impact asset classes, sectors and companies, and therefore negatively impact investment returns on the Fund's assets.
- The Fund manages this by understanding and monitoring the exposure of the assets to climate risks. The Fund assesses and takes appropriate actions where necessary to address any climate risks within the assets. Further details on the Fund's approach to climate related risks are set out in the Fund's Responsible Investment Policy.

Pandemic Risk

- This is the risk that an outbreak of an infectious disease causes disruption (possibly worldwide) that has a significant impact on the state of the economy and could result in a significant reduction in assets.
- The Fund manages this through regular reviews of the investments and through investing in funds which give a wide degree of diversification, in a wide range of companies and sectors. The Fund also assesses this by understanding the extent of extreme downside scenarios on the Fund's assets.

5. Approach to pooling

Regulation 7(2) (d) requires that all authorities commit to a suitable pool to achieve benefits of scale. It also requires that administering authorities confirm the chosen investment pool meets Government's investment reform criteria, or to the extent that it does not, that Government is content for it to continue.

The Cornwall Pension Fund pools investments with 8 other local authorities and the Environment Agency through the Brunel Pension Partnership and it's operator Brunel Ltd. This pool became operational from September 2018 and the Cornwall Pension Fund, through the Pension Committee, retain the responsibility for setting the detailed Strategic Asset Allocation and policies for the Fund. The portfolios provided by Brunel Ltd, have been designed to meet the requirements set out by the Brunel Pension Partnership members funds and the Fund allocates to these portfolios in-line with this Investment Strategy Statement.

The Brunel Pension Partnership is a company wholly owned by the Administering Authorities. It is be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular, it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds are operated by professional external investment managers. The Cornwall Fund will be a client of the Brunel Pension Partnership and as a client has the right to expect certain standards and quality of service. A detailed Service Agreement is in place, which sets out the duties and responsibilities of Brunel Ltd, and the rights of the Cornwall Fund as a client. It includes a duty of care of Brunel Ltd to act in its clients' best interests.

There is an Oversight Board, which is comprised of representatives from each of the Administering Authorities and has been set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that Brunel Pension Partnership delivers the services required to achieve investment pooling and therefore has a monitoring and oversight function. Subject to its terms of reference it is able to consider relevant matters on behalf of the Administering Authorities, but does not have delegated powers to take decisions requiring Shareholder approval. These are remitted back to each Administering Authority individually.

The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but also draws on Administering Authorities finance and legal officers from time to time. It has a primary role in reviewing the implementation of pooling by Brunel Pension Partnership, and provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The arrangements for asset pooling for the Brunel pool were formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance.

6. Responsible Investment Policy

The Cornwall Pension Fund's Pensions Committee ("Committee") has a fiduciary duty to act in the best interest of its members. To do this effectively the Committee recognises the importance of managing Environmental, Social and Corporate Governance ("ESG") issues, including climate change, that are financially material to the Fund, both in terms of opportunities and risks. What is more, there is a growing urgency with respect to long-term sustainability issues, particularly climate change. Therefore, it is imperative that ESG considerations and active ownership are integrated throughout investment processes and that they are taken into account as part of funding and investment strategy setting.

The Fund has made significant progress over the last 12 months in evolving its policies on Responsible Investment and climate change. We are continuing to focus on this as a key area for the Fund and aspire to be at the forefront of responsible investment practice. As part of this, the Committee has revisited its beliefs, updated its policies and processes, and is committed to increasing its allocation to sustainable and low carbon assets. The Committee recognises that ESG and stewardship are rapidly developing topics and will continue to develop its understanding, approaches, and ambition in these areas.

The Committee recognises the importance of working collaboratively with Brunel Pension Partnership ("Brunel") to make the Fund's ESG approach effective.

The Committee defines Responsible Investment ("RI") as the integration of ESG issues into its investment processes and stewardship (or active ownership) practices in the belief this can positively impact financial performance over the long term.

This policy sets out the Committee's approach to RI and details the actions the Committee, Brunel Pension Partnership ("Brunel"), and other external providers take on behalf of the Fund's members and other stakeholders, to enhance long-term risk adjusted returns and protect the Fund from ESG and reputational risks.

Brunel Pension Partnership and RI

As asset owners, the Fund sets its asset allocation and investment strategy. Since the introduction of pooling across the Local Government Pension Scheme, the Fund is no longer responsible for fund manager selection. This process is now handled by Brunel, who manage our investments in line with our strategic objectives. Brunel was formed in July 2017, and Cornwall, along with 8 other local authorities and the Environment Agency, each own 10%. The 10 funds and the operator, Brunel Ltd, have a mutual commitment to building a financial system which is fit for a low carbon future and feel this commitment is pivotal to driving change together.

The Brunel Pension Partnership Investment Principles and its supporting responsible investment policies clearly articulate Brunel's commitment, and that of each Fund in the Partnership and its operator (Brunel Ltd), to be responsible investors and as such recognise that ESG considerations are part of the process in the selection, non-selection, retention and realisation of assets. One of the potential principal benefits, outlined in the Brunel Pension Partnership business case, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Brunel has published its Responsible Investment Policy Statement and other related policies, which lay out its approach in more detail. More information is on the Brunel website https://www.brunelpensionpartnership.org/

Responsible Investment Beliefs

The Committee holds the following RI beliefs.

Responsible investors	We believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long-term sustainable success of the global economy and society.
Long time horizon	We are investors with a long time horizon. This requires us to consider long-term sustainability issues, both in terms of opportunities and risks, as relevant to the Fund and its investment strategy.
ESG integration	ESG issues can affect the performance of investment portfolios and should therefore be considered throughout the Fund's investment process.
Stewardship[1]	Good stewardship can enhance long-term portfolio performance and is therefore in the best interests of its members. Voting is an integral part of the responsible investment and stewardship process.
Corporate governance[2]	The Fund is a long-term active investor that takes seriously its role in fostering stewardship. We believe that sound corporate governance in the companies in which we invest contributes to long-term value for our members.
Climate change as a systemic risk	Climate change presents a systemic and material risk to the ecological, societal and financial stability of every economy and country on the planet, and therefore will impact our beneficiaries, employers, and our investment portfolio.
Climate change and the Paris Agreement	Investing to support the Paris Agreement goals that keep a global temperature rise this century to well below 2^{o}C relative to pre-industrial levels, is entirely consistent with securing long-term financial returns and is aligned with the best long-term interests of our beneficiaries, employers, and our portfolio holdings.

[1] Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole." – The UK Stewardship Guide

[2] Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled.

ESG integration

The Fund retains responsibility for setting its investment strategy and its ambitions on ESG and responsible investment. Brunel will be responsible for managing ESG issues on behalf of the Fund for the assets invested in its portfolios, in line with the agreed Brunel policies and consistent with the Fund's RI and ESG goals.

Each Brunel portfolio, across all asset classes, explicitly includes responsible investment and an assessment of how ESG considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing value in relation to each portfolio and its objectives. These considerations are taken into account when constructing the Brunel portfolios and in the selection, non-selection, retention and realisation of assets.

The Committee fully supports and actively encourages Brunel's commitment to working with managers in asset classes and strategies where ESG integration is less well developed (for example multi-asset credit and private debt) and to improve this over time through better practices and product innovation, using its scale, knowledge, and influence to help drive change.

We will seek assurance through formal structures such as our interactions as a Shareholder of Brunel, the Brunel Oversight Board, Client Group, the Responsible Investment sub-group (made up of officers of the funds and Brunel officers), and ongoing reporting and presentations to the Committee, and other means that Brunel is fulfilling its policy commitments with regards to ESG integration.

In the period before our mandates transition to Brunel, the extent to which managers evaluate and manage ESG issues in their investment process is assessed in the selection, retention and realisation of investment managers.

Officers review developments in ESG processes and any relevant ESG data with its fund managers as a standing item in manager meetings. Officers also assess investment managers' approaches to ESG integration and stewardship using our Investment Consultant's ESG ratings, where applicable. Where managers are lagging behind their peers, they will be engaged and encouraged to improve.

The Fund expects its investment advisors to proactively consider and integrate ESG issues when providing investment advice to the Fund.

Climate Change

The Committee recognises the commitments made by countries, regions, organisations and also local authorities such as Cornwall Council in relation to climate change. Climate change (and other long-term sustainability issues) present opportunities and risks that increasingly require explicit consideration by long-term investors.

Our climate change commitments

We are committed to:

- Investing at least 15% of our portfolio in sustainable and low carbon investments by 2022.
- Decarbonising our portfolio:
  - We will seek a carbon intensity improvement of at least 7% year-on-year in our listed equity portfolios. This will equate to over 20% lower carbon intensity than the benchmark (which Brunel is also seeking to improve – see below) by 2022.
  - We will also track and monitor (and report on) the fossil fuel exposure within our equity portfolio held with Brunel and are committed to this being materially lower than the benchmark.

- Assessing the strategic implications of climate change on an ongoing basis by undertaking climate change scenario analysis. This analysis seeks to understand the climate impact on return at the total Fund and asset class level. We have already undertaken this analysis and it has helped inform our decision to increase our strategic allocation to sustainable equities and renewable infrastructure.
- Adopting the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").
- Supporting Brunel in pressing the industry to make core benchmarks more compatible with a below 2°C aligned scenario.
- Encouraging Brunel on its engagement of the banking sector on their lending policies, to phase out the provision of financial services to energy companies and to utilities that are not aligned with the goals of the Paris climate agreement.

Brunel's 2020-2022 climate change policy objectives

The Committee fully encourages and supports Brunel's 2020-2022 policy objectives on climate change which are set out in their Climate Change Policy. These are laid out below.

Brunel's 2020-2022 policy objectives

We will play an active and leading role in encouraging policy makers to establish comprehensive and robust climate change policy frameworks. Within this, we will focus particular attention on:

- The adoption of a meaningful price on carbon, which is material (i.e. sufficient to drive change at the scale and rate required), progressive over time and widespread (i.e. applies to all major sectors of the economy).
- The removal of fossil fuel subsidies.
- The introduction of policy measures – for example, product standards, limitations on high carbon technologies, support for low carbon technologies – that accelerate the move away from high impact activities and sectors.
- The removal or correction of regulatory barriers to progress and support financial policy makers and regulators in being ambitious and effective in implementation of plans to mitigate climate risk and under the Adaptation Reporting Power.
- The integration of climate change into the mandates and into the oversight and control processes of prudential regulators and other regulatory bodies.
- Ensuring that climate change policy is socially sustainable and takes due account of workers' rights and community interests (the 'Just Transition') when taking action to reduce greenhouse gas emissions and adapt to a changing climate.

We will play an active leading role in encouraging policy makers to integrate climate change into multilateral and bilateral trading frameworks, with a particular focus on the UK post Brexit.

We will encourage policy makers to introduce mandatory climate change disclosure requirements for companies, with a focus on providing clear, decision useful information and encouraging a clear articulation of the risks that companies and their investors face.

We will support the development of skills, knowledge and professional standards of those intermediaries who are critical influencers in the action of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors.

Further details of Brunel's Climate Change policy are set out on its website https://www.brunelpensionpartnership.org/.

Monitoring and Reporting Progress

Reporting on climate change is an area that is rapidly developing, and we are working with Brunel and other member funds to continue to improve this. We are supportive of Brunel's involvement in initiatives, such as the Institutional Investors Group on Climate Change ("IIGCC") Paris Aligned Investment Initiative, that are working to allow asset owners and investment managers to explain, in a consistent and comparable manner, how their portfolios compare to the goals of a net zero carbon future and of keeping global temperature rise below 2°C.

We currently undertake climate change scenario analysis and carbon footprinting (measuring carbon intensity and fossil fuel reserve exposure) to better understand opportunities and risks within our portfolio. As our holdings transition into Brunel portfolios, we will be publishing the following metrics and data, as relevant, for different asset classes and strategies:

- Carbon footprints
- Fossil fuel exposures
- Green and brown share (i.e. the proportion of its portfolios invested in areas such as renewable energy)
- Its engagement and voting activities.

The Fund will use its website as the primary method of communication www.cornwallpensionfund.org.uk

We will publicly report in line with TCFD recommendations in due course and are developing our approach in this area.

2022 stocktake and ongoing improvements

We are currently supportive of Brunel's approach of not yet issuing exclusion lists as we believe that simply stating exclusions or requiring divestment from specific stocks or sectors will not compel investment managers to develop their capacity on climate change or drive change in the companies in which they are invested.

Alongside Brunel and our partner funds, we will be undertaking a full review of our climate change policy approach in late 2022 to provide us with the opportunity to reflect on our progress, the effectiveness of our approach, and to raise our ambitions (ahead of the triennial strategy review).

One of the key questions we will be answering as part of this review is whether Brunel's decision to engage with investment managers has been effective. Specifically, whether it has been effective in delivering change in the way investment managers work and in their ongoing engagement with companies to drive improvements in corporate strategies on climate change, so that these companies are on a trajectory to be aligned with the transition to a below 2°C economy. If the answer is no, we will be expecting Brunel to take action, including the possibility of changing investment managers and/or introducing selective divestment requirements for companies.

We will continue to monitor Brunel's progress on implementing its policy objectives and will work with them to achieve our collective climate change ambitions. If the Fund does not feel action is progressing at an appropriate pace, the Fund will seek to address this with the partnership.

In addition to the full review, the Committee will be reviewing its beliefs and commitments on an annual basis to ensure that they remain fit for purpose and that strategic objectives are set with these in mind. To support this, we will ensure there is regular training on climate change for the Committee, Board, and Officers so that those in charge of the decision making for the Fund are sufficiently informed.

Stewardship

As part of Brunel, we are actively exploring opportunities to enhance our stewardship activities. At the same time, we will continue to be an active owner in our own right.

The Committee believes one of the potential benefits of pooling, achieved through the scale and resources arising from pooling, is the improved implementation of stewardship practices. Brunel has published its Responsible Investment Stewardship Policy which outlines its approach and priorities. The policy reflects the priorities of its underlying clients, and we were active in contributing to the policy.

With the support of the Cornwall Pension Fund and the other partner funds, Brunel has been using its influence to press for improved stewardship at external investment managers and has been actively involved in government consultations and other initiatives in the area. Once all equity assets have been transitioned, the Partnership and Brunel Ltd will seek to deliver best practice standards in responsible investment and stewardship in terms of company engagement as outlined in the Brunel Pension Partnership Investment Principles. More information is available on the website (www.brunelpensionpartnership.org).

The Committee has delegated investment powers to Brunel and the Fund's investment managers (where assets have not yet transitioned to Brunel) to act in the best interests of the Fund. Brunel and the Fund's investment managers are encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in key areas. Brunel and the Fund's investment managers have been asked to report to the Committee on the implementation of their stewardship and engagement activities, which will be reviewed on a regular basis.

Officers of the Fund are involved in the Responsible Investment sub-group and discuss ESG and responsible investment matters and developments, and exchange best monthly. A representative from Brunel is also present at every quarterly Committee meeting to report back on these activities.

The Fund recognises the importance of collaboration with other investors to achieve more effective and wider reaching outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum ("LAPFF") which aims to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Further details can be found on their http://www.lapfforum.org/

Voting

The Committee has delegated the exercise of voting rights to Brunel and the Fund's investment managers (where assets have not yet transitioned to Brunel) on the basis that voting power will be exercised with the objective of preserving and enhancing long-term shareholder value.

As part of owning publicly listed companies Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). Brunel aims to vote 100% of all available votes. To provide guidance to its managers, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts. Hermes EOS has been appointed to support Brunel as its engagement and voting service provider. Brunel will publish its voting policy and provide online voting records at least annually. The Fund will publish the voting carried out on its behalf on its website www.cornwallpensionfund.org.uk

Investment managers have produced written guidelines of their process and practice in this regard. They are encouraged to vote in line with their guidelines, in respect of all resolutions, at annual and extraordinary general meetings of companies. Investment managers are expected to report on their voting activity on a regular basis.

2020 UK Stewardship Code:

In late 2019, the Financial Reporting Council ("FRC") published its revised 2020 UK Stewardship Code ("2020 Code"). The latest Code defines stewardship as "*the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*"

The FRC has described the 2020 Code as ambitious and highlighted the increased focus on 'activities and outcomes' as opposed to policy statements alone. As part of this increased remit, the 2020 Code covers a wider range of asset classes, requires signatories to consider the systematic integration of ESG and climate change in the stewardship and investment process, and is based on a more stringent 'comply and explain' basis. The revised 2020 Stewardship Code now has 12 principles for signatories which can be found in the overleaf.

The Fund plans to become a signatory to the 2020 Code by the end of 2021, recognising the significant amount of work complying with and reporting on the new Code will entail. The Fund has already had discussions with its partner funds and Brunel to ensure appropriate structures are in place to enable this goal.

RI Initiatives

To deliver our Responsible Investment policy the Fund is active in supporting a number of responsible investment initiatives. We are committed to adopting the recommendations of the Taskforce for Climate-related Financial Disclosure ("TCFD"). The Fund plans to become a signatory to the UK Stewardship code. The Fund is a member of the LAPFF. The Fund will become a member of the Institutional Investors Group on Climate Change ("IIGCC"), it also supports the Just Transition and the Transition Pathway Initiative ("TPI"). In addition, the Fund supports Brunel as a signatory to the UN supported Principles for Responsible Investment ("PRI").

Social investments

Government guidance addresses the issue of “social investments”; meaning those that deliver a social impact as well as a financial return. The Government considers that social investments are appropriate for LGPS funds where the social impact is simply in addition to the financial return. It also considers that investments where some part of the financial return is forgone in order to generate the social impact are also appropriate, where the administering authority has good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the Fund. To date the Fund has not made any social investments. Social investing is an active area of consideration for the Fund and policies on this are expected to continue to develop.

12 Principles of the 2020 Stewardship Code

1) Purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2) Governance, resources and incentives support stewardship.
3) Manage conflicts of interest to put the best interests of clients and beneficiaries first.
4) Identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5) Review their policies, assure their processes and assess the effectiveness of their activities.
6) Take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7) Systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8) Monitor and hold to account managers and/or service providers.
9) Engage with issuers to maintain or enhance the value of assets.
10) Where necessary, participate in collaborative engagement to influence issuers.
11) Where necessary, escalate stewardship activities to influence issuers
12) Actively exercise their rights and responsibilities.

Contact

Sean Johns
Pension Investments Manager
Cornwall Pension Fund
2nd Floor, West Wing
New County Hall
Truro TR1 3AY

Email: pension.investments@cornwall.gov.uk
Tel: 01872 324432

Cornwall Council

Administering Authority for the Cornwall Pension Fund

Investment Strategy Statement

Appendices

A. Investment Manager Information

As at 31 December 2020 the Fund invested with a range of Fund managers. The table below shows the details of the mandate(s) with each manager. All set objectives are net of fees.

Investment Manager/Fund	Date of Appointment	Benchmark	Objective
Growth Assets			
Developed Global Equities			
Newton	September 1994	MSCI AC World	+2.0% p.a.
Emerging Market Equities			
Brunel	October 2019	MSCI Emerging Markets TR Gross	+2 - 3.0% p.a.
Diversified Growth			
Invesco	February 2013	3 months Sterling LIBOR	+6.0% p.a.
Tactical Asset Allocation Portfolio (advisor)	September 2018	Total Fund ex LDI ex TAAP	+1.0% p.a.
Property			
Aberdeen Standard	January 2016	IPD UK All Balanced Fund	+1.5% p.a.
Internally held funds	January 2016	IPD UK All Balanced Fund	+0.5% p.a.
Alternatives - Infrastructure			
Infracapital	July 2007	LIBOR 7 Day Index	+5.0% p.a
Hermes	January 2015	LIBOR 7 Day Index	+5.0% p.a
Brunel	January 2019	UK CPI	+4.0% p.a.
Alternatives – Private Equity			
Aberdeen Standard	April 2006	LIBOR 7 Day Index	+5.0% p.a
Wilshire	March 2007	LIBOR 7 Day Index	+5.0% p.a
Environmental Technologies Fund	July 2008	LIBOR 7 Day Index	+5.0% p.a
Alternatives – Private Credit			
Golub	April 2017	LIBOR 7 Day Index	+5.0% p.a.
BlueBay	August 2017	LIBOR 7 Day Index	+5.0% p.a.
M&G	July 2010	LIBOR 7 Day Index	+5.0% p.a.
Alternatives – Hedge Funds			
Man Solutions	December 2014	LIBOR 7 Day Index	+3.0% p.a.

Stabilising Assets			
Alternatives – Multi-Asset Credit			
Insight MAC	February 2019	LIBOR 7 Day Index	+5.0% p.a.
Liability Driven Investment			
BlackRock	November 2019	Fund Specific benchmark	n/a
Cash			
Drawdown Portfolio (Advisor)	April 2019	LIBOR 7 Day Index	-

B. Stock lending

The Fund utilises stock lending as a way of enhancing the income gained from securities. The Fund is currently invested in pooled investment funds, meaning that decisions on stock lending are delegated to the investment manager.