NORTH YORKSHIRE COUNTY COUNCIL

PENSION BOARD

18 JANUARY 2018

NYPF STATEMENT OF COMPLIANCE WITH THE UK STEWARDSHIP CODE

1.0 PURPOSE OF THE REPORT

1.1 To provide Pension Board members with an update on the progress made towards the production of an NYPF statement of compliance with the UK Stewardship Code.

1.2 To provide Board members with the opportunity to feed comments back on the draft statement prior to PFC approval.

2.0 UK STEWARDSHIP CODE BACKGROUND

2.1 The Financial Reporting Council (FRC) published the first UK Stewardship Code (the Code) for institutional investors on 2 July 2010 and issued an update on 1 October 2012 (attached as **Appendix 1**). The Code will next be revised in 2018. The main focus of the Code is on UK Equity investments.

2.2 The Code aims to enhance the quality of engagement between investors and companies to help improve the long term risk adjusted returns to shareholders. The Code also sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Further details of the FRC and the Code are available at www.frc.org.uk.

2.3 The Local Government Pension Scheme (LGPS) Management and Investment of Funds Regulations 2016 require each Fund to have an Investment Strategy Statement (ISS), the latest NYPF ISS is attached as **Appendix 2**. The mandatory guidance states that the ISS should explain the Fund's policy on stewardship with reference to the UK Stewardship Code. It also states that "Administering authorities should become Signatories to the Code and state how they implement the following seven principles and guidance of the Code, which apply on a "comply or explain" basis":

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

2.4 To become signatories to the Code, Investors should submit a Statement of Compliance with the U.K. Stewardship Code to the FRC for assessment. In 2016, to improve the quality of reporting against the Code, encourage greater transparency in the market and maintain the credibility of the Code, the FRC began to assess signatories based on the quality of their Code statements. Statements assessed as Tier 1, are considered to provide a good quality and transparent description of the approach to stewardship and explanations of alternative approaches where necessary. Statements assessed as Tier 2 are considered insufficiently transparent or do not provide adequate explanations. All Tier 1 and 2 statements are published on the FRC website.

3.0 UPDATE AND NEXT STEPS

3.1 To ensure that the North Yorkshire Pension Fund is compliant with this latest guidance, officers have drafted an NYPF Statement of Compliance with the U.K. Stewardship Code, attached as **Appendix 3**.

3.2 As Board members will be aware, assistance on gaining NYPF compliance with the UK Stewardship Code is on the Pension Board's work plan (line 14). Board members are therefore asked to provide any comments on the draft Statement at the January meeting. Comments and feedback will be reflected in the draft statement before it is presented to the Pension Fund Committee for approval in the February meeting. Once approved, the statement will be sent to the FRC for assessment.

3.3 Following FRC assessment, the statement will be published on the NYPF website and will be reviewed as part of the annual governance review. The FRC will also be notified of any updates to the statement.

4.0 RECOMMENDATION

4.1 Pension Board members to provide feedback on the draft NYPF Statement of Compliance with the U.K. Stewardship Code.

Code

Corporate Governance

Financial Reporting Council

September 2012

The UK Stewardship Code

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Contents

Stewardship and the Code

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.

2. In publicly listed companies responsibility for stewardship is shared. The primary responsibility rests with the board of the company, which oversees the actions of its management. Investors in the company also play an important role in holding the board to account for the fulfilment of its responsibilities.

3. The UK Corporate Governance Code identifies the principles that underlie an effective board. The UK Stewardship Code sets out the principles of effective stewardship by investors. In so doing, the Code assists institutional investors better to exercise their stewardship responsibilities, which in turn gives force to the "comply or explain" system.

4. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

5. Institutional investors' activities include decision-making on matters such as allocating assets, awarding investment mandates, designing investment strategies, and buying or selling specific securities. The division of duties within and between institutions may span a spectrum, such that some may be considered asset owners and others asset managers.

6. Broadly speaking, asset owners include pension funds, insurance companies, investment trusts and other collective investment vehicles. As the providers of capital, they set the tone for stewardship and may influence behavioural changes that lead to better stewardship by asset managers and companies. Asset managers, with day-to-day responsibility for managing investments, are well positioned to influence companies' long-term performance through stewardship.

7. Compliance with the Code does not constitute an invitation to manage the affairs of a company or preclude a decision to sell a holding, where this is considered in the best interest of clients or beneficiaries.

Application of the Code

1. The UK Stewardship Code traces its origins to ‘The Responsibilities of Institutional Shareholders and Agents: Statement of Principles,’ first published in 2002 by the Institutional Shareholders Committee (ISC), and which the ISC converted to a code in 2009. Following the 2009 Walker Review of governance in financial institutions, the FRC was invited to take responsibility for the Code. In 2010, the FRC published the first version of the UK Stewardship Code, which closely mirrored the ISC code. This edition of the Code does not change the spirit of the 2010 Code.

2. The Code is directed in the first instance to institutional investors, by which is meant asset owners and asset managers with equity holdings in UK listed companies. Institutional investors may choose to outsource to external service providers some of the activities associated with stewardship. However, they cannot delegate their responsibility for stewardship. They remain responsible for ensuring those activities are carried out in a manner consistent with their own approach to stewardship. Accordingly, the Code also applies, by extension, to service providers, such as proxy advisors and investment consultants.

3. The FRC expects signatories of the Code to publish on their website, or if they do not have a website in another accessible form, a statement that:

   - describes how the signatory has applied each of the seven principles of the Code and discloses the specific information requested in the guidance to the principles; or
   - if one or more of the principles have not been applied or the specific information requested in the guidance has not been disclosed, explains why the signatory has not complied with those elements of the Code.

4. Disclosures under the Code should improve the functioning of the market for investment mandates. Asset owners should be better equipped to evaluate asset managers, and asset managers should be better informed, enabling them to tailor their services to meet asset owners’ requirements.

5. In particular the disclosures should, with respect to conflicts of interest, address the priority given to client interests in decision-making; with respect to collective engagement, describe the circumstances under which the signatory would join forces with other institutional investors to ensure that boards acknowledge and respond to their concerns on critical issues and at critical times; and, with respect to proxy voting agencies, how the signatory uses their advice.

6. The statement of how the Code has been applied should be aligned with the signatory’s role in the investment chain.

7. Asset owners’ commitment to the Code may include engaging directly with companies or indirectly through the mandates given to asset managers. They should clearly communicate their policies on stewardship to their managers. Since asset owners are the primary audience of asset managers’ public statements as well as client reports on stewardship, asset owners should seek

to hold their managers to account for their stewardship activities. In so doing, they better fulfil their duty to their beneficiaries to exercise stewardship over their assets.

8. An asset manager should disclose how it delivers stewardship responsibilities on behalf of its clients. Following the publication in 2011 of the Stewardship Supplement to Technical Release AAF 01/06, asset managers are encouraged to have the policies described in their stewardship statements independently verified. Where appropriate, asset owners should also consider having their policy statements independently verified.

9. Overseas investors who follow other national or international codes that have similar objectives should not feel the application of the Code duplicates or confuses their responsibilities. Disclosures made in respect of those standards can also be used to demonstrate the extent to which they have complied with the Code. In a similar spirit, UK institutions that apply the Code should use their best efforts to apply its principles to overseas equity holdings.

10. Institutional investors with several types of funds or products need to make only one statement, but are encouraged to explain which of their funds or products are covered by the approach described in their statements. Where institutions apply a stewardship approach to other asset classes, they are encouraged to disclose this.

11. The FRC encourages service providers to disclose how they carry out the wishes of their clients with respect to each principle of the Code that is relevant to their activities.

12. Signatories are encouraged to review their policy statements annually, and update them where necessary to reflect changes in actual practice.

13. This statement should be easy to find on the signatory’s website, or if they do not have a website in another accessible form, and should indicate when the statement was last reviewed. It should include contact details of an individual who can be contacted for further information and by those interested in collective engagement. The FRC hosts on its website the statements of signatories without their own website.

14. The FRC retains on its website a list of asset owners, asset managers and service providers that have published a statement on their compliance or otherwise with the Code, and requests that signatories notify the FRC when they have done so, and when the statement is updated.

15. The FRC regularly monitors the take-up and application of the Code. It expects the content of the Code to evolve over time to reflect developments in good stewardship practice, the structure and operation of the market, and the broader regulatory framework. Unless circumstances change, the FRC does not envisage proposing further changes to the Code until 2014 at the earliest.

Financial Reporting Council
September 2012

Comply or Explain

1. As with the UK Corporate Governance Code, the UK Stewardship Code should be applied on a "comply or explain" basis.

2. The Code is not a rigid set of rules. It consists of principles and guidance. The principles are the core of the Code and the way in which they are applied should be the central question for the institutional investor as it determines how to operate according to the Code. The guidance recommends how the principle might be applied.

3. Those signatories that choose not to comply with one of the principles, or not to follow the guidance, should deliver meaningful explanations that enable the reader to understand their approach to stewardship. In providing an explanation, the signatory should aim to illustrate how its actual practices contribute to good stewardship and promote the delivery of the institution's or its clients' investment objectives. They should provide a clear rationale for their approach.

4. The Financial Services Authority requires any firm authorised to manage funds, which is not a venture capital firm, and which manages investments for professional clients that are not natural persons, to disclose "the nature of its commitment" to the Code or "where it does not commit to the Code, its alternative investment strategy" (under Conduct of Business Rule 2.2.3[1]).

5. The FRC recognises that not all parts of the Code are relevant to all signatories. For example, smaller institutions may judge that some of its principles and guidance are disproportionate in their case. In these circumstances, they should take advantage of the ''comply or explain'' approach and set out why this is the case.

6. In their responses to explanations, clients and beneficiaries should pay due regard to the signatory's individual circumstances and bear in mind in particular the size and complexity of the signatory, the nature of the risks and challenges it faces, and the investment objectives of the signatory or its clients.

7. Whilst clients and beneficiaries have every right to challenge a signatory's explanations if they are unconvincing, they should not evaluate explanations in a mechanistic way. Departures from the Code should not be automatically treated as breaches. A signatory's clients and beneficiaries should be careful to respond to the statements from the signatory in a manner that supports the "comply or explain" process and bears in mind the purpose of good stewardship. They should put their views to the signatory and both parties should be prepared to discuss the position.

[1] http://fsahandbook.info/FSA/html/handbook/COBS/2/2

The Principles of the Code

So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should:

1. publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. monitor their investee companies.
4. establish clear guidelines on when and how they will escalate their stewardship activities.
5. be willing to act collectively with other investors where appropriate.
6. have a clear policy on voting and disclosure of voting activity.
7. report periodically on their stewardship and voting activities.

The UK Stewardship Code

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Guidance

Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.

The policy should disclose how the institutional investor applies stewardship with the aim of enhancing and protecting the value for the ultimate beneficiary or client.

The statement should reflect the institutional investor's activities within the investment chain, as well as the responsibilities that arise from those activities. In particular, the stewardship responsibilities of those whose primary activities are related to asset ownership may be different from those whose primary activities are related to asset management or other investment-related services.

Where activities are outsourced, the statement should explain how this is compatible with the proper exercise of the institutional investor's stewardship responsibilities and what steps the investor has taken to ensure that they are carried out in a manner consistent with the approach to stewardship set out in the statement.

The disclosure should describe arrangements for integrating stewardship within the wider investment process.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Guidance

An institutional investor's duty is to act in the interests of its clients and/or beneficiaries.

Conflicts of interest will inevitably arise from time to time, which may include when voting on matters affecting a parent company or client.

Institutional investors should put in place, maintain and publicly disclose a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.

Principle 3

Institutional investors should monitor their investee companies.

Guidance

Effective monitoring is an essential component of stewardship. It should take place regularly and be checked periodically for effectiveness.

When monitoring companies, institutional investors should seek to:

- keep abreast of the company's performance;
- keep abreast of developments, both internal and external to the company, that drive the company's value and risks;
- satisfy themselves that the company's leadership is effective;
- satisfy themselves that the company's board and committees adhere to the spirit of the UK Corporate Governance Code, including through meetings with the chairman and other board members;
- consider the quality of the company's reporting; and
- attend the General Meetings of companies in which they have a major holding, where appropriate and practicable.

Institutional investors should consider carefully explanations given for departure from the UK Corporate Governance Code and make reasoned judgements in each case. They should give a timely explanation to the company, in writing where appropriate, and be prepared to enter a dialogue if they do not accept the company's position.

Institutional investors should endeavour to identify at an early stage issues that may result in a significant loss in investment value. If they have concerns, they should seek to ensure that the appropriate members of the investee company's board or management are made aware.

Institutional investors may or may not wish to be made insiders. An institutional investor who may be willing to become an insider should indicate in its stewardship statement the willingness to do so, and the mechanism by which this could be done.

Institutional investors will expect investee companies and their advisers to ensure that information that could affect their ability to deal in the shares of the company concerned is not conveyed to them without their prior agreement.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

Guidance

Institutional investors should set out the circumstances in which they will actively intervene and regularly assess the outcomes of doing so. Intervention should be considered regardless of whether an active or passive investment policy is followed. In addition, being underweight is not, of itself, a reason for not intervening. Instances when institutional investors may want to intervene include, but are not limited to, when they have concerns about the company's strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters.

Initial discussions should take place on a confidential basis. However, if companies do not respond constructively when institutional investors intervene, then institutional investors should consider whether to escalate their action, for example, by:

- holding additional meetings with management specifically to discuss concerns;
- expressing concerns through the company's advisers;
- meeting with the chairman or other board members;
- intervening jointly with other institutions on particular issues;
- making a public statement in advance of General Meetings;
- submitting resolutions and speaking at General Meetings; and
- requisitioning a General Meeting, in some cases proposing to change board membership.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

Guidance

At times collaboration with other investors may be the most effective manner in which to engage.

Collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value.

Institutional investors should disclose their policy on collective engagement, which should indicate their readiness to work with other investors through formal and informal groups when this is necessary to achieve their objectives and ensure companies are aware of concerns. The disclosure should also indicate the kinds of circumstances in which the institutional investor would consider participating in collective engagement.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

Guidance

Institutional investors should seek to vote all shares held. They should not automatically support the board.

If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution. In both instances, it is good practice to inform the company in advance of their intention and the reasons why.

Institutional investors should disclose publicly voting records.

Institutional investors should disclose the use made, if any, of proxy voting or other voting advisory services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services.

Institutional investors should disclose their approach to stock lending and recalling lent stock.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

Guidance

Institutional investors should maintain a clear record of their stewardship activities.

Asset managers should regularly account to their clients or beneficiaries as to how they have discharged their responsibilities. Such reports will be likely to comprise qualitative as well as quantitative information. The particular information reported and the format used, should be a matter for agreement between agents and their principals.

Asset owners should report at least annually to those to whom they are accountable on their stewardship policy and its execution.

Transparency is an important feature of effective stewardship. Institutional investors should not, however, be expected to make disclosures that might be counterproductive. Confidentiality in specific situations may well be crucial to achieving a positive outcome.

Asset managers that sign up to this Code should obtain an independent opinion on their engagement and voting processes having regard to an international standard or a UK framework such as AAF 01/06[2]. The existence of such assurance reporting should be publicly disclosed. If requested, clients should be provided access to such assurance reports.

[2] Assurance reports on internal controls of service organisations made available to third parties: http://www.icaew.com/en/technical/audit-and-assurance/assurance/technical-release-aaf-01-06

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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NORTH YORKSHIRE PENSION FUND

INVESTMENT STRATEGY STATEMENT

TABLE OF CONTENTS

1.0 INTRODUCTION

1.1 Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations) requires administering authorities to formulate, publish and maintain an Investment Strategy Statement (ISS). This document is the ISS of the North Yorkshire Pension Fund (NYPF, or the Fund) for which North Yorkshire County Council (the Council) is the administering authority.

1.2 The Council has delegated all its functions as the administering authority of NYPF to the Pension Fund Committee (PFC, or the Committee). The Corporate Director - Strategic Resources, who reports to the Chief Executive, has day to day control of the management of all aspects of the Fund's activities.

1.3 The Committee determines the investment policy of the Fund and has ultimate responsibility for the investment strategy. The Committee undertakes its responsibilities after taking appropriate advice from external advisers.

1.4 The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

2.0 OBJECTIVES OF THE FUND

2.1 The primary objective of the Fund is to provide pension benefits for members upon retirement and/or benefits on death for their dependents, on a defined benefits basis. Investments will therefore be selected with the aim of fully funding these benefit requirements over an extended number of years. The funding position will be reviewed at each Triennial Valuation with adjustments to the investment strategy, asset allocation and to investments with investment managers as required.

2.2 The investment objective of the Fund is to provide for sufficient capital growth of the Fund's assets in a range of market conditions, supplemented by employee and employer contribution income, to meet the cost of benefits as they fall due. It is translated into a suitable strategic asset allocation benchmark designed to address the nature of the Fund's liabilities, and deliver returns over the long term including through periods of volatility in financial markets.

3.0 INVESTMENT OF MONEY IN A WIDE VARIETY OF INVESTMENTS

3.1 The Committee reviews the investments of the Fund on a regular basis. The last review of the investment strategy took place in 2013 and there is an ongoing review of the strategy, alongside the 2016 Triennial Valuation, due to be completed in 2017. Additional reviews of individual asset classes have also taken place, with particular regard to diversification and suitability. The Committee receives advice from its Investment Consultant when undertaking such reviews.

3.2 These reviews provide a framework designed to produce the returns the Fund requires over the long term to meet its future liabilities. Each asset class invested in is allocated a range, and rebalancing takes place when values stray beyond them due to market conditions. Further rebalancing may take place based on tactical views of the Fund's advisers.

3.3 The Fund's current strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without specific reference to the Committee, however in practice the allocation is considered by the Committee each quarter and adjustments made as necessary.

	Minimum %	Benchmark %	Maximum %
Equities	50	62	75
Alternatives	10	20	20
Fixed Income	15	18	30

3.4 The largest proportion of the Fund's investments are in equities which is aimed at growing the value of assets over the long term. Other return seeking asset classes complement this goal, with the allocation to liability matching assets providing a measure of protection against rising liability valuations.

3.5 Each asset class is sub-divided into two or more mandates with different investment managers and operating to different benchmarks, further increasing the diversification of the Fund's investments.

3.6 The most recent changes to the strategy have been the addition of Alternatives, being Property (2012), Diversified Growth Funds (2013) and Private Debt (2016). These asset classes have served to further diversify the Fund's investments, spreading risk and reducing short term volatility.

3.7 Each investment manager operates to a specific benchmark and to specific mandate restrictions appropriate to their process and style, so that in aggregate, their activities are aligned to the overall performance requirements and risk appetite of the Fund. Each manager holds a range of underlying investments which reflects their views relative to their respective benchmarks, as permitted by their mandates.

3.8 The investment management arrangements of the Fund are as follows.

Manager	**Mandate**	**Objective**
Standard Life	UK Equities	To outperform the FTSE 350 (excluding Investment Trusts) Equally Weighted Index by 3% pa over the long term
Baillie Gifford	Global Equities (Global Alpha)	To outperform the FTSE All World Index by 2% over the long term
Baillie Gifford	Global Equities (Long Term Global Growth)	To outperform the FTSE All World Index by 3% over the long term
Dodge & Cox	Global Equities	To outperform the MSCI All Country World Index over a market cycle
Veritas	Global Equities	To outperform CPI + 6% to 10% over the medium term
Fidelity	Overseas Equities	To outperform an MSCI geographically weighted index by 2% pa over the medium term
Newton	Diversified Growth Fund	To outperform LIBOR by 4% over the medium term
Standard Life	Diversified Growth Fund	To outperform LIBOR by 5% over the medium term
Hermes	UK Property	To outperform the IPD Other Balanced Property Funds Index by 0.5% over the medium term
Legal & General	UK Property	To outperform the IPD All Balanced

		Property Funds Index over the medium term
Threadneedle	UK Property	To outperform the IPD All Balanced Property Funds Index by 1% to 1.5% over the medium term
M&G	UK Government Bonds	To outperform liabilities by 0.5%
ECM	European Corporate Bonds	To outperform LIBOR by 3%
BlueBay	Private Debt	IRR of 9% gross (7% net) including 4.5% cash yield
Permira	Private Debt	IRR of 9% gross (8% net) including 5% cash yield

4.0 THE SUITABILITY OF PARTICULAR INVESTMENTS AND TYPES OF INVESTMENTS

4.1 The following categories of investment have been approved as suitable for the NYPF.

UK Equities provide a share in the assets and profitability of public companies floated on UK stock exchanges. Capital gains and losses arise as share prices change to reflect investor expectations at the market, sector and stock levels. Income is derived from dividends.

Overseas Equities are similar to UK Equities but allow greater diversification amongst markets, sectors and stocks. Valuations are affected by exposure to movements in the relative value of the foreign currencies in which investments are made against sterling. Exchange rates are likely to reflect differentials in inflation so should not affect returns materially over the long term, but over the short term currency movements may significantly add to or subtract from returns. Equities are expected to provide high returns compared to other asset classes (the “equity-risk premium”); to address the NYPF deficit position a high proportion of assets will be held in equities.

UK Bonds are debt instruments issued by the UK Government and other borrowers. Bonds provide a fixed rate of interest and are usually redeemed at a fixed price on a known future date. Valuations primarily reflect the fixed level of interest, the period to redemption and the overall return demanded by investors. They are vulnerable to rising inflation and correspondingly benefit from falling inflation.

Overseas Bonds are similar to UK Bonds but have exposure to currency exchange rate fluctuations. As with UK bonds they are influenced by local inflation rates.

Index Linked Bonds are bonds that provide interest and a redemption value directly linked to a measure of inflation, usually the Retail Price Index or a similar index. The returns from this asset class act as a useful proxy for movements in liability values.

Diversified Growth Funds	are an alternative way of investing in shares, bonds, property and other asset classes. These funds are managed by specialist multi-asset managers and target returns slightly below that of equities but with significantly reduced volatility due to the diversification of their constituent parts.
UK Property	is an investment in buildings, indirectly through pooled vehicles. Capital gains and losses occur as prices fluctuate in line with rental levels and investor demand. Income is generated from rents collected from tenants. The nature of rental agreements gives property some of the characteristics of bonds, whilst growth and inflation provide some of the characteristics of equities. It is, therefore, a useful diversifying asset class.
Private Debt	is loan arrangements provided directly to companies over the medium term for an index linked return, significantly above rates charged by commercial banks. Typically they are provided through pooled fund arrangements and require that investors commit funds for a period of 5 to 7 years, with income and capital being returned throughout that time.
Derivative Instruments	such as options and futures are mechanisms through which the Fund can be protected from sudden changes in share prices or exchange rates. Although not income producing they can result in capital gains and losses. They may be used to hedge the Fund's exposure to particular markets.
Cash	is invested in authorised institutions in accordance with the treasury management policy of the Council under the terms of a Service Level Agreement and attracts interest at market rates.

4.2 Each asset class has different return expectations and volatility characteristics. They are blended to produce the optimal investment return while taking an appropriate level of risk. Periodic investment reviews assess whether this blend requires adjustment, including through the addition of new asset classes, to take account of changing market conditions and the evolving asset and liability profile of the Fund. Tactical rebalancing also takes place, as required. All monitoring, reviews and rebalancing is undertaken after taking advice from the Fund's Investment Consultant.

4.3 The 2016 Triennial Valuation was prepared on the basis of an expected return on assets of 5.9% over the long term. This return is 1.5% above the discount rate used to calculate the Fund's liabilities and reflects a "probability of funding success" as described in the Funding Strategy Statement of 75%. This is based on the Fund's current asset mix and assumes no outperformance from active management.

5.0 THE APPROACH TO RISK, INCLUDING THE WAYS IN WHICH RISKS ARE TO BE MEASURED AND MANAGED

5.1 The Fund to aims to achieve its funding objective by taking an appropriate level of risk, through investing a proportion of funds in growth assets. Ongoing monitoring of the risk profile takes place including reassessing its appropriateness through investment strategy reviews and at the quarterly meetings of the PFC when appropriate. Close regard is paid to the ongoing risks which may arise through a developing mismatch, over time, between the assets of the Fund and its liabilities, together with the risks which may arise from any lack of balance/ diversification of the investment of those assets.

5.2 The risk of financial mismatch is that the Fund’s assets fail to grow in line with the liabilities. It is managed by the Committee through a review of the assumptions used to calculate the Fund’s liabilities at each Triennial Valuation, and an assessment by the Actuary of the Fund’s asset allocation strategy of the probability of achieving funding success. This assessment forms the basis for subsequent asset allocation reviews aimed at controlling risk and further improving the funding position.

5.3 Longevity risk and other demographic factors are assessed at each Triennial Valuation. The Committee reviews national and Fund specific trends as part of this process.

5.4 Systemic risk, being the possibility that an event akin to the financial crisis occurs, is mitigated through the diversified nature of the Fund’s asset allocation strategy. The Committee has taken steps since 2008 to spread investments across a larger number of asset classes which behave differently in different market conditions. The risks associated with individual asset classes, the combined nature of risks at Fund level are reassessed at each strategy review and changes made as appropriate.

5.5 This diversification across asset classes and across investment managers within each asset class significantly mitigates concentration risk, so that the effect of underperformance of any one asset class or investment manager is minimised. Rebalancing activity prevents departure from the strategic asset allocation benchmark.

5.6 The significant majority of the Fund’s assets are invested in liquid investments, so that the risk of illiquidity, being an inability to meet liabilities as a result of a lack of liquid assets, is minimal. The risk is further managed by cashflow forecasting.

5.7 Currency risk is that the Fund’s assets, the majority of which are overseas, underperform relative to Sterling. This risk is managed through a periodic assessment of currency exchange rates including receiving advice on the suitability of hedging the major currencies the Fund’s assets are denominated in.

5.8 Agreements with the Fund’s custodian and investment managers provide protection against fraudulent losses. In addition regular checks are undertaken by independent auditors of the custodian’s and investment managers’ systems. These organisations have internal compliance teams which also monitor and report on risk.

5.9 The Fund maintains a Risk Register which identifies the key risks, an assessment of the potential impact of each risk should it occur, and the controls and contingency plans in place to mitigate the likelihood and severity of each risk. The Risk Register is reviewed by the PFC annually and by the Pension Board semi-annually.

6.0 THE APPROACH TO POOLING INVESTMENTS, INCLUDING THE USE OF COLLECTIVE INVESTMENT VEHICLES AND SHARED SERVICES

6.1 The Fund is a provisional member of the Border to Coast Pensions Partnership (“BCPP”, or “the Pool”). The proposed structure and basis on which the BCPP will operate was initially set out in the July 2016 submission to Government and is currently under review as part of the plans for formal creation of the Pool vehicle.

6.2 The key criteria for the assessment of the Pool are that it provides a suitable solution that meets the investment objectives and asset allocation strategy of the Fund and that there is significant financial benefit to joining the arrangements.

6.3 The change in arrangements is that the Pool will be responsible for manager selection and monitoring, which is currently a responsibility of the Committee. The responsibilities for determining the investment strategy and asset allocation strategy will remain with the Committee.

6.4 At the time of preparing this statement the details of the pooling arrangements are being finalised. However it is expected that NYPF's liquid assets will be transitioned into the Pool once suitable sub-funds are in place, and that illiquid investments will be retained by NYPF. New investments will be made through the Pool wherever possible.

6.5 The July 2016 submission to Government of BCPP, available on the Fund's website www.nypf.org.uk, provided a statement addressing an outline structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured. Government approved this approach on 12 December 2016. The Fund has subsequently been working with the BCPP to progress final arrangements.

6.6 Arrangements include establishing a Financial Conduct Authority regulated company to manage the assets of BCPP partner funds. Based on legal advice describing the options on holding shares in this company (BCPP Limited), the Fund will hold all voting and non-voting shares rather than the Council. This is because the purpose of the company is to meet the needs of the constituent Funds in complying with the regulations on pooling, rather than for a Council specific purpose.

6.7 The Fund will hold the Pool to account through having a representative on the Joint Committee, which as an investor will monitor and oversee the investment operations of BCPP Limited. It will also have a representative on the Shareholder Board, which will as an owner provide oversight and control of the corporate operations of BCPP Limited.

6.8 As the Pool develops and the structure and governance of the Pool are established, the Fund will include this information in future iterations of the ISS.

7.0 HOW SOCIAL, ENVIRONMENTAL OR CORPORATE GOVERNANCE CONSIDERATIONS ARE TAKEN INTO ACCOUNT IN THE SELECTION, NON-SELECTION, RETENTION AND REALISATION OF INVESTMENTS

7.1 The PFC takes the view that its overriding obligation is to act in the best financial interests of the Scheme and its beneficiaries. It is recognised that environmental, social and governance ("ESG") factors can influence long term investment performance and the ability to achieve long term sustainable returns. Therefore, as a responsible investor, the Committee wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests.

7.2 The Committee considers the financial impact of ESG factors on its investments through regular reporting by the Fund's investment managers. Engagement with company management and voting behaviour are integral to investment processes aimed at improving performance in companies in which they invest.

7.3 As well as delegating the Fund's approach to ESG issues to its investment managers, NYPF is also a member of the Local Authority Pension Fund Forum (LAPFF) which is the UK's leading collaborative shareholder engagement group. This organisation promotes ESG good practice on behalf of over 70 LGPS funds. Its activity acts as a complement to that undertaken by the Fund's investment managers. Any differences in approach are discussed with the Fund's investment managers so that the reasons are fully understood.

7.4 The Fund is compliant with the six principles on investment decision making for occupational pension schemes, as set out in the guidance published by the Chartered Institute of Public Finance and Accountancy in December 2009 called "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles".

8.0 THE EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO INVESTMENTS

8.1 The Committee has delegated the exercise of voting rights to Pension Investment Research Consultants Limited (PIRC). Votes are executed by PIRC according to predetermined Shareholder Voting Guidelines agreed by the PFC, available on the Fund's website. These guidelines are aligned to the UK Stewardship Code and to best practice in other jurisdictions. Votes are cast for all UK equities held by the Fund, and for non-UK holdings where practicable. The Fund monitors voting decisions on a regular basis.

8.*2* The Fund adheres to the Stewardship Code as published by the Financial Reporting Council. The Committee will expect both BCPP Ltd and any investment managers appointed by it to also comply with the Stewardship Code.

8.3 The Fund's collective engagement activity through the LAPFF supports the voting activity undertaken by PIRC.

8.4 The Fund aims to adopt the Principles of the Financial Reporting Council's UK Stewardship Code. A Statement of Compliance will be published on the Fund's website in 2017.

23 February 2017

NORTH YORKSHIRE PENSION FUND

Statement of Compliance with the UK Stewardship Code for Institutional Investors

Introduction

The UK Stewardship Code aims to enhance the quality of engagement between institutional investors and the companies with which they hold investments to assist in improving long term returns to shareholders. The North Yorkshire Pension Fund (NYPF) aims to apply the values of the code across its investment activity and believes that these values being met is essential to discharge the duty we owe to stakeholders.

This Statement of Compliance details the approach of NYPF to the seven principles of the Code.

Principle 1 - Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

The NYPF takes its responsibility as a shareholder seriously and seeks to adhere to the UK Stewardship Code wherever possible. Whilst the Fund does not currently have a specific Stewardship Policy, the Investment Strategy Statement and Governance Compliance Statement describe the Fund's approach to stewardship; both of these policies are available on the Fund's website.

As a responsible investor, NYPF wishes to promote corporate social responsibility and good governance practice amongst all companies in which it invests by being an engaged asset owner. In accordance with the Stewardship Code, the Fund will seek to ensure that there is effective engagement with companies to make sure that strong governance arrangements are in place; this can ultimately have a positive impact on investment performance and therefore the funding level of the Fund. In practice, the Fund applies the code in a number of ways, including through its arrangements with investment managers and through membership of collaborative groups.

The day to day investment activity of NYPF is delegated to external investment managers, who are expected to adhere to the policies that were approved during inception, though the Fund retains the right to direct an investment manager in respect of any specific issue. The policies adhered to during inception must take account of the UK Corporate Governance Code and the UK Stewardship Code and are expected to follow the best practice contained within these codes alongside any local standards when dealing with overseas investments. Currently eight of our investment managers have a published statement of compliance to the UK Stewardship Code with the four remaining being investors in private debt and property funds. On appointment, the investment manager's approach to stewardship is assessed. Managers are also asked to include stewardship activity in their quarterly reports that are taken to the Pension Fund Committee (PFC) for review.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which is a collaborative shareholder engagement group for Local Authority Pension Funds who monitor corporate governance issues at investee companies and provide guidance accordingly. Members of the PFC also attend the LAPFF Annual Conference to keep up to date with the work of the LAPFF.

The exercising of voting rights is delegated to the Pension Investment Research Consultants Limited (PIRC) and executed according to predetermined Shareholder Voting Guidelines. These guidelines are agreed by the Pension Fund Committee and aligned to the UK Stewardship Code and to best practice in other jurisdictions. Votes are cast for all UK equities held by the Fund. The Fund monitors voting decisions on a regular basis.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed

The administering authority of the NYPF requires disclosure of any interests a Member may possess in a company or organisation which has dealings with the authority and this disclosure must be placed in the Register of Members' Interests; this register is available on the authority's website. In addition to the entries on the Register, Members are also asked to declare any conflicts of interest at the start of each Pension Fund Committee meeting which will be documented as part of the minutes for that meeting. Dependent upon the nature of the interest, the chairman of the PFC will ensure appropriate action is taken to prevent any conflict of interest affecting the decision making process. This requirement can be found in the Code of Conduct for Members of North Yorkshire County Council.

The Fund expects a similar approach to be taken by its investment managers and external advisors with the organisation's Internal Controls document reviewed at inception to ensure consistency with the Fund's own policy. These Internal Control documents are also reviewed regularly by the Fund following inception. Where any conflicts exist, these are to be reported to the Fund along with the actions taken to negate the conflict.

Principle 3 - Institutional investors should monitor their investment companies

The daily responsibility of managing the Fund's investments lies primarily with the individual investment managers and as such we expect them to monitor and report on the organisations they have invested in on our behalf, intervening when necessary. The minimum requirement is a quarterly update on the investment managers' performance and activity which is assessed against specific benchmarks and details any performance issues with the assets contained therein. To compliment this, investment managers attend the quarterly meetings to discuss aspects of the Fund and are expected to report in a timely manner any issues that have become apparent.

As noted previously, the exercising of the Funds voting rights are delegated to Pension Investment Research Consultants Limited (PIRC). The voting decisions are influenced by our membership of the LAPFF which supports the voting activity undertaken by PIRC. Both organisations monitor investee companies on our behalf and report to the Fund on a quarterly basis. The Shareholder Voting Guidelines which PIRC adhere to encourage the promotion of corporate social responsibility, good practice and improved performance which it considers to be essential elements of long term share performance.

In addition to this, the Fund also receives alerts from the LAPFF with regard to governance issues and liaises with the investment managers where it is appropriate to gain more knowledge and agree a course of action where it is deemed appropriate.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value

With the Fund's investment managers monitoring the companies in which investments are held, it follows that any escalation in engagement activity is also undertaken by the investment managers within the guidelines that were stipulated during the initial engagement of the investment manager. Any escalation activity taken by investment managers is reported to the PFC on a quarterly basis.

On a separate basis and in conjunction with the LAPFF and PIRC, the Fund may decide to escalate engagement activity itself through a joint shareholder action where it is felt that actions by the company have resulted or could result in a loss of shareholder value or a deviation by the company which contradicts the basis on which the original investment was made. Such instances will usually be brought to the fore by the LAPFF as a result of their monitoring activities.

In extreme cases, the Fund may engage in shareholder litigation to recover any loss in value caused by the actions of an investee company. To facilitate this the Fund retains the services of companies such as the Goal Group and Grant & Eisenhower. All activity relating to this is reported on a quarterly basis to the PFC.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate

The Fund seeks to work collaboratively with other institutional investors to maximise the influence it can have on individual companies. This is achieved by being an engaged member of the LAPFF which aims to protect the long term investments of its members through promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. A representative from the Pension Fund Committee (PFC) attends the annual LAPFF conference to gain an understanding of, and have input to, any proposed engagement activities.

The implementation of LGPS Pooling Arrangements will also aid acting collaboratively going forward. Pooling will increase the individual power and influence of investors in order to push for change.

The main contact for collaborative purposes is Amanda Alderson, Senior Accountant for the Fund, who can be contacted by email at Amanda.alderson@northyorks.gov.uk.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity

The NYPF has instructed Pension Investment Research Consultants Ltd (PIRC) to execute the voting rights for all segregated UK Equities held by the Fund and Non UK where practicable. These votes are executed by PIRC according to predetermined Shareholder Voting Guidelines agreed by the PFC which are reviewed on an annual basis and exemplify the Funds commitment to Responsible Investing and best practice. Should PIRC raise any contentious issues these are reported to the PFC, as they will have the final say on how the vote is to be made.

Voting rights which fall outside the scope of PIRC are delegated to the investment managers and expected to be exercised in line with the Shareholder Voting Guidelines and the investment manager policies which were agreed upon by the Fund. The exercising of all voting rights is to be aligned with the interests of the Fund and communicate a clear approach to issues so that companies can fully understand both the intentions and views of the Fund. Where the board’s resolutions do not meet the alignment of the Funds interests, the investment manager will either abstain from the vote or vote against the board’s resolution and communicate to the company the reasons why the resolution is not being supported.

Additional guidance issued by the LAPFF can also have a bearing on voting intentions.

The Fund does not currently participate in stock lending in its segregated accounts.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities

The Fund’s investment managers are required to detail in their quarterly reports any stewardship activities that have been performed in that period. These activities are reviewed by the committee on a quarterly basis.

Whilst stewardship activities have formed part of the quarterly PFC reporting and the NYPF approach to stewardship and voting activities is detailed in the Investment Strategy Statement, they have not been summarised in the annual accounts. Beginning with the 2017/18 financial year, a section will be provided in the annual accounts which details stewardship activities and an analysis of the voting activity in the year.