



# North Yorkshire Pension Fund

## Investment Strategy Statement



Local Government  
Pension Scheme

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## 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 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 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 to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.
- 1.5 The Fund has consulted on the contents of the Investment Strategy Statement with such persons it considers appropriate. This document is reviewed annually as part of the Fund's annual governance review.

## 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 income and 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 a return 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 It is the PFC's policy to invest the assets of the Fund to spread risk by ensuring a reasonable balance between different categories of investments. The PFC takes a long-term approach and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Fund and meet the cost of its liabilities.
- 3.2 The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives either directly or through pooled funds. The Fund may also make use of derivatives, either directly or in pooled funds, for the purposes of efficient portfolio management or to hedge specific risks, to protect the value of the Fund's assets.
- 3.3 The Committee reviews the investments of the Fund on a regular basis, with regard to suitability and diversification. On each occasion, the Committee receives advice from its Investment Consultant and Independent Adviser.

3.4 Changes to the Fund’s asset allocation strategy include the addition of Alternatives, being Property (2012), Private Debt (2016) and Infrastructure (2019), Climate Opportunities (2022) and UK Opportunities (2024). Multi Asset Credit was added in 2020. These asset classes have served to further diversify the Fund’s investments, spreading risk and reducing short term volatility while maintaining sufficient investment returns.

3.5 A review of the investment strategy took place in ~~2024/25~~the first quarter of 2021, when a number of changes were made. This review was supported by investment beliefs agreed by the Committee:

- Long-term aim of maintaining a funding level of at least 100%
- Downside risk should be reduced if the impact on investment returns is small
- The extent of downside risk reduction should be guided by the proportion of surplus assets
- Diversification will aid with smoothing out investment returns over market cycles
- Investments will be made through Border to Coast, where suitable options are available
- New asset classes may be added to the strategy where there is a clear benefit
- Consideration of ESG issues must be integral to investment processes
- ~~Equity should be the main driver of risk and returns~~
- ~~Active management can add value (particularly in equities)~~
- ~~Avoid diversification for diversifications sake~~
- ~~Only add suitable new assets when there is a clear benefit and here has been appropriate training~~
- ~~As a long term investor some volatility in assets can be afforded~~
- As a long term investor some illiquidity can be afforded if it adds value

3.6 The target allocation to equities was significantly lowered, to reduce the overall level of volatility of the Fund. UK equities was removed altogether, and UK property was reduced, continuing the movement of the strategy towards a more global approach. There were corresponding increases to public and private markets’ fixed income asset classes, and allocations to private markets investments including to those expected to have non-financial benefits alongside their formal financial objectives.

3.7 The extent of the reduction in equities in favour of fixed income was based on the estimated surplus position of the Fund. This led to changes to target asset allocations for the whole Fund rather than these surplus assets being managed separately.

3.8 The changes to the private markets allocations of private credit, climate opportunities and UK opportunities will be implemented over several years. To help align the current asset allocation closer to the strategy while these illiquid allocations grow over time, Listed Alternatives is being used as a temporary proxy investment.

3.9 The Fund’s current long-term strategic asset allocation is set out in the table below.

	Benchmark %
Equities	<del>50</del> <u>39</u>
Infrastructure	10
<u>Climate Opportunities</u>	<u>4</u>
<u>UK Opportunities</u>	<u>1</u>
Property	<del>7.5</del> <u>4.25</u>
Private Credit	<del>5</del> <u>11</u>
Multi Asset Credit	<del>5.5</del> <u>2.5</u>
Corporate Bonds	<del>7.5</del> <u>8</u>
Government Bonds	<del>15</del> <u>17.5</u>

- 3.10 Actual allocations are considered with reference to the benchmark allocations each quarter. Based on tactical views, rebalancing activity is carried out as required. Rebalancing is always an option, but 3% thresholds below and above the allocations to the global equity managers are in effect, to indicate when rebalancing would be expected to take place, subject to advice.
- 3.11 Historically and where possible, investments at the asset class level have been sub-divided into two or more mandates with different investment managers operating to different benchmarks, further increasing the diversification of the Fund's investments. As assets are gradually being transferred to Border to Coast (see section 6) this is being replaced by a different approach. The number of investments is reducing, but largely into funds which employ two or more external investment managers. Therefore, although the approach is changing, diversification is maintained, and in some cases, increased.
- 3.12 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.
- 3.13 The investment management arrangements of the Fund are as follows.

<b>Manager</b>	<b>Mandate</b>	<b>Objective (net unless stated)</b>
<del>Border to Coast</del>	<del>UK Equities</del>	<del>To outperform the FTSE All Share Index by 2% pa over the long term</del>
Border to Coast	Global Equities	To outperform the MSCI All Countries World Index by 2% pa over the long term
Baillie Gifford	Global Equities (Long Term Global Growth)	To outperform the FTSE All World Index by 3% (gross) over the long term
Border to Coast	Listed Alternatives	MSCI All Country World Index (Net) over the medium term
Border to Coast	Infrastructure	IRR of 8%
Border to Coast	Climate Opportunities	IRR of 8%
Border to Coast	UK Opportunities	IRR of 8%
Legal & General	UK Property	To outperform the MSCI All Balanced Property Funds Index over the medium term
Threadneedle	UK Property	To outperform the MSCI All Balanced Property Funds Index by 1% to 1.5% over the medium term
Arcmont	Private Debt	IRR of 7%
Permira	Private Debt	IRR of 8%
Border to Coast	Private Debt	IRR of 6%

Manager	Mandate	Objective (net unless stated)
Border to Coast	UK Corporate Bonds	To outperform the iboxx Sterling Non-Gilts Index by 0.6% over the long term
Border to Coast	UK Government Bonds	To outperform the FTSE UK Index Linked Gilts over 15 Years Index by 0.2% over the long term
NYC Treasury Management	Cash	To outperform the Bank of England base rate
Northern Trust	Cash	To outperform the Bank of England base rate

3.14 Although there is not an allocation to cash in the strategy, there will inevitably be a small allocation in practice, to satisfy the Fund’s cash flow management requirements.

3.15 The Fund is permitted to invest up to 5% in entities connected to the administering authority. There are currently no such investments.

#### 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.~~

##### Global~~Overseas~~ Equities

provide a share in the assets and profitability of public companies floated on stock exchanges around the world. 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. Investing globally enables diversification amongst markets, sectors and stocks. Valuations are affected by exposure to movements in the relative value of 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”).

##### 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.

<b>Index Linked Bonds</b>	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.
<b>Multi-Asset Credit</b>	Multi-Asset Credit strategies offer investors exposure to a diverse range of credit premia, by investing across a range of geographies, asset classes and credit instruments, to protect against rising interest rates and changes in the credit cycle. These funds are well positioned to complement a traditional fixed income allocation and provide portfolio diversification whilst de-risking from equities.
<b>UK Property</b>	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.
<b>Infrastructure</b>	is a term for real assets which provide essential services to a community for example transport facilities, telecommunications networks and water supplies. These are long term, illiquid investments that should provide stable returns that in some cases are inflation linked and largely uncorrelated to equities, making it a diversifying asset class.
<b>Private Debt</b>	is loan arrangements provided directly to companies over the medium term for a 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.
<b>Listed Alternatives</b>	is an approach to investing in infrastructure, private debt and other alternatives through UK and overseas stock exchanges. The risk and return characteristics are therefore a blend of equities and alternatives. Temporarily investing in this asset class enables exposure to alternatives to be quickly established in lieu of an allocation to private markets, which will be built up over several years.
<b>Climate Opportunities</b>	is an investment which aims to have a positive impact on climate change and supporting long-term net zero carbon emissions goals. It is comprised of investments in private equity, infrastructure and private credit. The themes are clean energy, transport, agriculture, technology, industry and sequestration.

## UK Opportunities

seeks to deliver high-quality investment opportunities expected to have a positive economic impact. Investments include new build housing, commercial properties and regeneration projects; renewable energy development and supporting grid infrastructure; and finance for early stage and growth companies in the UK. As well as offering attractive returns, investments are also expected to add value to the local and wider UK economy.

## 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 and Independent Adviser.

4.3 The 2024/25 investment strategy review was concluded based on an expected return on assets of 7.2% per annum over the long term. This is higher than the expected return assumed by the 2022 Valuation of 6.1%, due in part to the negative returns experienced by most asset classes in 2022/23. 6.1% was 2% 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 80%. This was 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 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 or 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 the global financial crisis in 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 material 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 has its own Risk Management Policy and 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.
- 5.10 Environmental, Social and Governance (ESG) factors present financial and non-financial risks to the Fund which could impact on the ability to achieve the long-term return target. The Fund's approach to managing these risks is detailed in the Responsible Investment Policy. The Climate Change Statement expands on the approach in relation to this area.

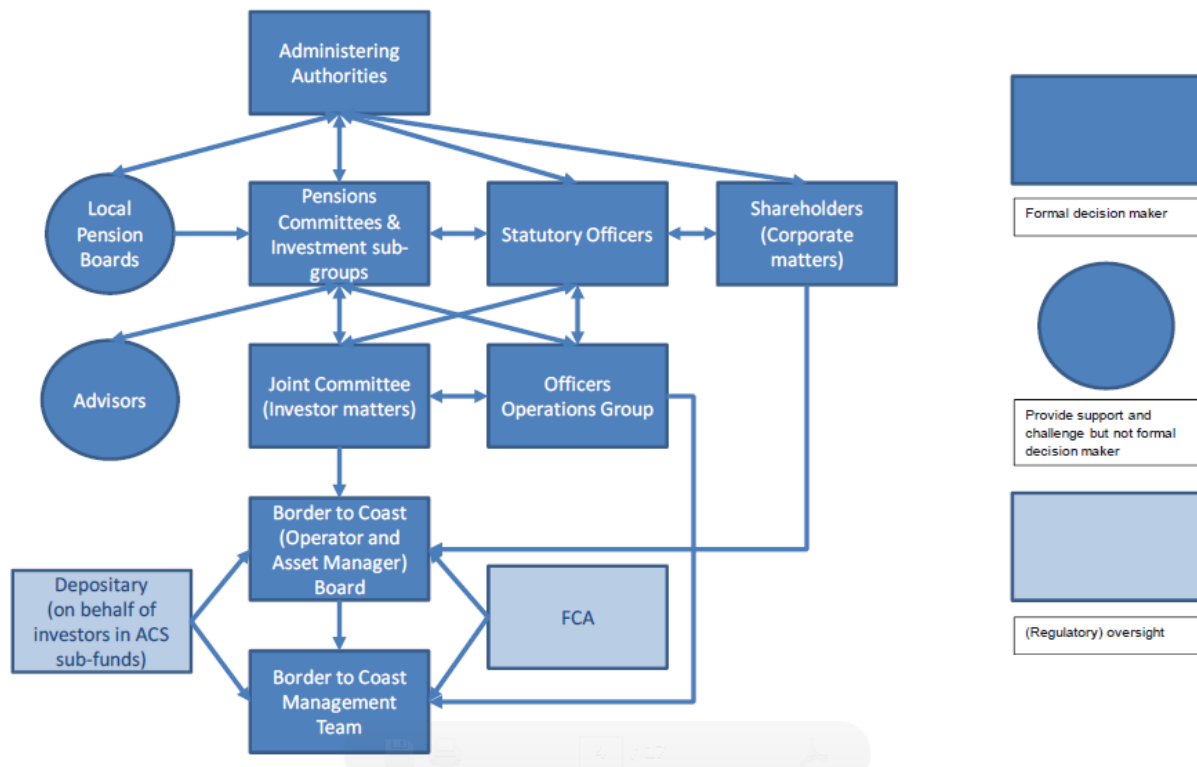
## 6.0 The approach to pooling investments, including the use of collective investment vehicles and shared services

- 6.1 To satisfy the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Fund has become a shareholder of the Border to Coast Pensions Partnership ("Border to Coast", or "the Pool"). Border to Coast is an FCA regulated Operator and Alternative Investment Fund Manager (AIFM), that became operational in July 2018.
- 6.2 Border to Coast is a partnership of the administering authorities of the following LGPS Funds:
- Bedfordshire Pension Fund
  - Cumbria Pension Fund
  - Durham Pension Fund
  - East Riding Pension Fund
  - Lincolnshire Pension Fund
  - North Yorkshire Pension Fund
  - South Yorkshire Pensions Authority
  - Surrey Pension Fund

- Teesside Pension Fund
- Tyne & Wear Pension Fund
- Warwickshire Pension Fund

6.3 The Fund retains responsibility for determining the investment strategy and asset allocation, and delegates manager selection to the Pool. This ensures that the fiduciary duty for and democratic accountability of the Fund can be maintained, whilst facilitating the delivery of cost benefits through scale.

6.4 The governance structure of the Pool is as follows:



6.5 The Fund will hold the Pool to account through the following mechanisms:

- A shareholding in Border to Coast with voting rights of equal weight to the other ten partner funds, enabling oversight and control of the corporate operations of Border to Coast
- A representative on the Joint Committee which, as an investor, will monitor and oversee the investment operations of Border to Coast
- Officer support to the representatives above from the Officer Operations Group and the Statutory Officer Group. Day to day oversight will be provided by these officer groups.

6.6 It is expected that all NYPF's assets will be transitioned into the Pool, once suitable sub-funds are in place. This process is expected to take several years. The key criteria for the assessment of the sub-funds offered by the Pool are that they provide suitable solutions that meet the investment objectives and asset allocation strategy of the Fund and that there are significant financial benefits in investing. The Fund undertakes due diligence prior to investment to ensure that the interests of NYPF are met. Certain illiquid investments will be retained by NYPF until they are fully realised. The legal structures of these illiquid assets are such that it may not be practical to transfer ownership without a substantial loss in value. The Fund will continually monitor assets that are held outside of the Pool to ensure that this continues to be appropriate and that value for money is being demonstrated.

- 6.7 An annual report will be submitted to the Scheme Advisory Board providing details of assets transferred into the Pool.
- 6.8 New regulations and guidance are expected to follow the Government’s conclusion from the Fit for the future consultation process. This will need to be reflected in the Investment Strategy Statement, although the Fund’s arrangements are already well aligned with the Government’s objectives.
- 7.0 **How social, environmental or corporate governance considerations are considered 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 ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. Investment advice received by the Fund implicitly includes consideration of these factors. Therefore, as a responsible investor, the Committee and the Fund’s managers wish to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests.
- 7.2 The consideration of ESG factors is incorporated into the investment managers’ investment processes. This includes acting as a responsible investor, through the considered voting of shares and engaging with investee companies in relation to corporate governance standards and best practice.
- 7.3 The Fund is closely involved with Border to Coast in the development of company policies in relation to ESG issues. This includes annual updates to Border to Coast’s Responsible Investment Policy, Corporate Governance and Voting Guidelines, and their Climate Change Policy. NYPF also works with Border to Coast on the evolving approach to investing, such as the weight given to ESG issues in investment processes and the depth of reporting. This document details the consideration of financial and non-financial factors, the approach to stewardship and engagement and other associated issues.
- 7.4 Until now, the Fund has had its own Responsible Investment Policy. However, most of investments have been transferred to Border to Coast, and the remaining investments are expected to be under pool management by April 2026. Border to Coast’s Responsible Investment Policy, Corporate Governance and Voting Guidelines document, and their Climate Change Policy have therefore been adopted by the Fund, rather than continue with a separate document describing the same approach.
- 7.5 The Committee further considers the financial impact of ESG factors on its investments through regular reporting by the Fund’s investment managers. This includes reporting on engagement with company management and voting activity.
- 7.6 NYPF is 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 80 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.
- 7.7 The Fund’s managers are also involved in collaborations. For example, Border to Coast is a member of the Institutional Investor Group on climate Change (IIGCC) and Climate Action 100+, and the 30% Club Investor Group which aims to improve diversity on company boards.
- 7.8 Any evaluation of impact investments is made on the same basis as other investment opportunities, in considering financial and non-financial factors.

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

- 8.1 The Committee has delegated the exercise of voting rights to its external investment managers. Voting should be undertaken where it is believed to be in the best interests of the Fund. The Fund's investment managers are required to report quarterly on their voting activities. As part of the Annual Report there will be a disclosure of voting activity.
- 8.2 A new Stewardship Code ~~is expected to be published in 2025 or 2026~~~~has been published~~. The Fund ~~will consider~~~~intends to~~ reporting against this code in the future. The Fund adhered to an earlier Stewardship Code as published by the Financial Reporting Council and was a Tier 1 signatory. A Statement of Compliance with the earlier code will continue to be published on the Fund's website for the time being. As funds transfer to the Pool, the Committee will expect both Border to Coast and any investment managers appointed by it to comply with the latest Stewardship Code.
- 8.3 The Fund's collective engagement activity through the LAPFF supports the voting activity undertaken by investment managers.

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