Appendix 1

NORTH YORKSHIRE PENSION FUND

INVESTMENT STRATEGY STATEMENT

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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 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.

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, in order to protect the value of the Fund's assets.

3.3 The Committee reviews the investments of the Fund on a regular basis, with particular regard to suitability and diversification. On each occasion, the Committee receives advice from its Investment Consultant and Independent Adviser.

3.4 Recent changes to the Fund's asset allocation strategy include the addition of Alternatives, being Property (2012), Private Debt (2016) and Infrastructure (2019). Multi Asset Credit was also 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 The last review of the investment strategy took place in the first quarter of 2021, when a number of changes were made. Illiquid credit other than Private Credit, and Absolute Return were dropped from the strategy, and Property was reduced. There were corresponding increases to the allocations to Equities, Infrastructure, Corporate Bonds and Government Bonds. Overall, the changes are intended to improve the efficiency of the strategy, through reducing risk but maintain return expectations.

3.6 Most of the changes are in the Fund's liquid asset classes and can be made relatively quickly. The change to the private markets allocation of infrastructure will be implemented over the longer term, as will achieving the allocation to Private Credit, which is still in the process of being built up following its addition to the strategy in 2019. To help align the current asset allocation closer to the strategy while these illiquid allocations grow over time, listed alternatives will be used on a temporary basis.

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

	Benchmark %
Equities	50
Infrastructure	10
Property	7.5
Private Credit	5
Multi Asset Credit	5
Corporate Bonds	7.5
Government Bonds	15

3.8 Actual allocations are considered with reference to the benchmark allocations by the Committee each quarter. Based on tactical views, rebalancing activity is carried out as required. Consideration is being given to applying thresholds below and above each of the benchmark allocations around each asset class to assist with the approach to rebalancing.

3.9 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. Investments are typically in funds which employ two or more external investment managers. Therefore although the approach is changing, diversification is maintained and in some cases increased.

3.10 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.

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

Manager	**Mandate**	**Objective**
Border to Coast	UK Equities	To outperform the FTSE All Share Index by 2% pa over the long term
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	To outperform the FTSE All World Index

	Global Growth)	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
Border to Coast	Infrastructure	IRR of 8% (net)
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
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
Border to Coast	Private Debt	IRR of 6% (net)
Border to Coast	UK Corporate Bonds	To outperform the iboxx Sterling Non-Gilts Index by 0.6% over the long term
M&G	UK Government Bonds	To outperform the gilt based benchmark by 0.5%
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
Newton	Diversified Growth Fund	To outperform LIBOR by 4% over the medium term
Leadenhall	Insurance Linked Securities (Diversified)	To outperform Money Market Fund (MMF) returns by 4% to 5.5%
Leadenhall	Insurance Linked Securities (Nat Cat Focus)	To outperform Money Market Fund (MMF) returns by 6.5% to 7.5%
Leadenhall	Insurance Linked Securities (Remote)	To outperform Money Market Fund (MMF) returns by 3% to 4%
NYCC Treasury Management	Cash	To outperform the Bank of England base rate.
~~Legal & General~~	~~Equity Protection Mandate~~	~~To provide downside protection by giving up upside against a portion of the Fund's global equity holdings using 12 and 18 month contracts from July 2019~~ ~~Total value protected was £800m at inception (July 2019) approximately 22%~~

		~~of the total portfolio value as at 30 June 2019~~ ~~LGIM are also holding fixed interest gilts and index linked gilts as collateral to back the equity protection mandate, the gilts are held in a passively managed portfolio.~~

3.12 The allocations to diversified growth and insurance linked securities were removed from the strategy in 2021. These assets will be redeployed over time. 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.

3.13 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.

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").

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.

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.

Multi-Asset Credit 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, in order 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.

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.

Infrastructure 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.

Private Debt 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.

Listed Alternatives 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 a number of years.

Insurance Linked Securities is a term used to cover an array of financial instruments whose values are driven by insurance loss events - catastrophes. These instruments are linked to property losses caused by natural and man-made catastrophes and represent a unique asset class given that returns are both uncorrelated and independent from the general financial market. ILS themselves are bond like instruments which are securitised on the underlying catastrophe risks. Typically they are provided through pooled fund arrangements.

~~**Property Debt** are direct loans secured against commercial properties and their income. The majority of the return comes from coupon payments which are distributed quarterly. They are bond like returns that do not typically suffer from capital losses. They are provided through pooled fund arrangements.~~

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 2021 investment strategy review was concluded on the basis of an expected return on assets of 5.6% over the long term. This return is 1.6% 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 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 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

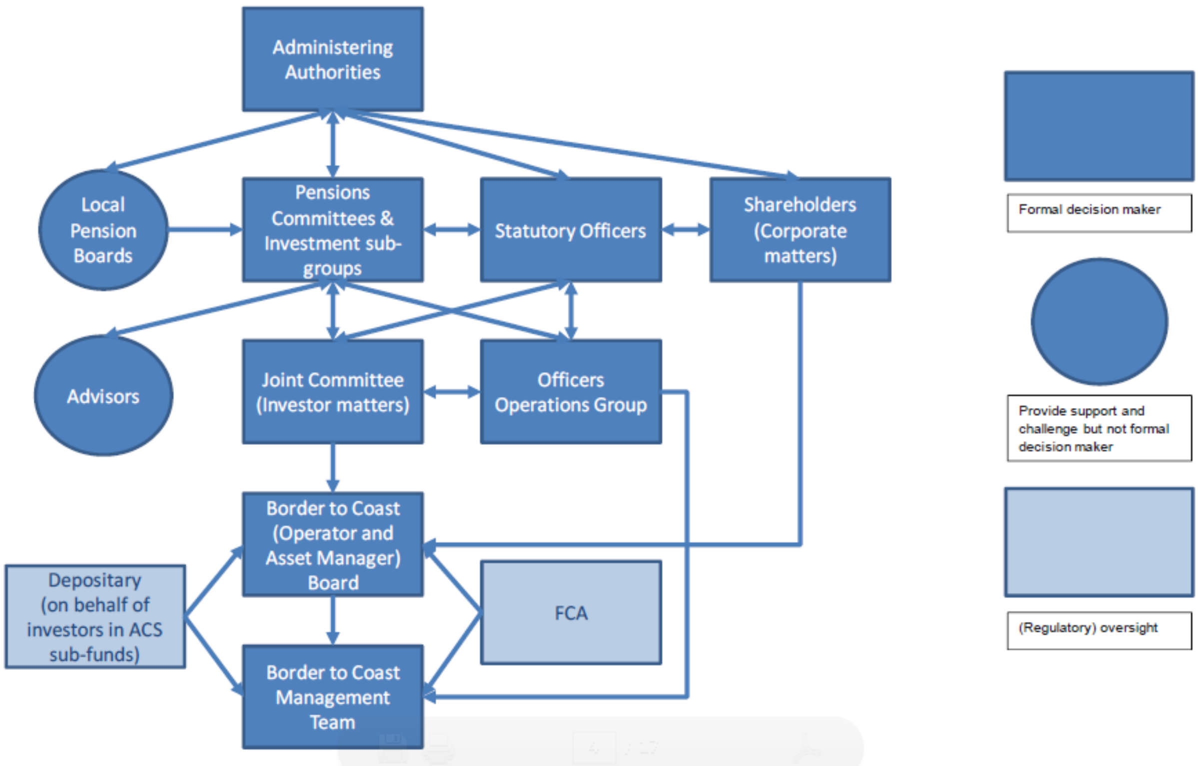
6.1 In order to satisfy the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Fund has become a shareholder of the Border to Coast Pensions Partnership ("Border to Coast", or "the Pool"). Border to Coast is an FCA regulated Operator and Alternative 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~~responsibility~~ 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 of NYPF's assets will be transitioned into the Pool, once suitable sub-funds are in place. This process is expected to take a number of 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.

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 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 are 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's approach to ESG is set out in its Responsible Investment Policy. This document details the consideration of financial and non-financial factors, the approach to stewardship and engagement and a number of other associated issues. There is a section on climate change, which is expanded on in the Fund's Climate Change Statement.

7.4 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.

7.5 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 from 2021 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.

7.4 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 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.

7.5 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.

7.6 Any evaluation of impact investments is made on the same basis as other investment opportunities, in taking into account 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* The new Stewardship Code was published in 2020. The Fund intends to report against this code in 2021. The Fund adhered to the 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 until the new report is available. As funds transfer to the Pool, the Committee will expect both Border to Coast and any investment managers appointed by it to also comply with the new 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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