Lincolnshire Pension Fund - Investment Beliefs Statement

These beliefs form the foundation of discussions, and assist decisions, regarding the structure of the Fund and the strategic asset allocation. In addition, they are used to ensure that new members on the Pensions Committee understand previous investment decisions taken. It is recognised that environmental, social and governance (ESG) issues are important to the long-term success of the Fund, and the Committee aims to integrate consideration of these issues into all aspects of the Fund's investment arrangements.

Belief 1:

The Fund should take no more investment risk than is necessary to have a reasonable chance of achieving its objectives, and only where the Committee believes it will be rewarded over the longer term.

It is recognised that investment risk is needed in the Fund to generate the required returns, however this needs to be considered on an on-going basis to ensure it is appropriate (i.e. not too high or too low) given the Fund's objectives

Belief 2:

Funding, contribution requirements, and investment strategy are linked; as the funding position and contribution requirements change, the level of investment risk should be adjusted accordingly.

The Committee's aim is to strike a reasonable balance between 1) building up a pool of assets to meet members' benefits when they fall due, 2) maintaining contribution requirements at a reasonable and affordable level, and 3) minimising investment risk.

Belief 3:

Investing in illiquid assets provides opportunities for enhancing returns, and investing in alternative asset classes helps to diversify the Fund structure.

The Committee accepts that by "locking away" funds for longer periods of time, the Fund should expect to be compensated for the lack of liquidity in the form of higher expected returns. However it is understood that this is not suitable for all the assets in the Fund. The Fund's investments should be diversified by combining assets with different risk, return and liquidity characteristics, whilst maintaining realistic expectations about the potential for sources of return to become correlated under market stress. The Committee believes an appropriate portion of the Fund should be invested in non-core asset classes, i.e. alternative assets, to provide diversification and reduce overall volatility of returns.

Belief 4:

Passive and active management both have roles to play in the Fund's structure; passive to deliver low cost asset class exposure and active to add potential value, understanding that active managers' success should be measured over a reasonable timeframe.

The Committee believes that active managers can add a return premium over investment markets, over the longer term, but accept that this has a cost. Therefore this is balanced with allocations to passive management to produce market returns at a very low cost.

Belief 5:

Although fees and costs matter, it is the expected return net of all fees and costs that should be the Committee's focus, however it is important that the value provided by an investment is commensurate with its cost.

The cost of accessing different asset classes and different management styles must be understood to ensure that the Fund is obtaining value for money, however the expected net return is the most important consideration when assessing investment opportunities and monitoring investment performance. The Fund expects its managers to have signed up to the Cost Transparency Code, and it also participates in fee benchmarking to assess the fees being paid relative to other pension schemes.