

# INVESTMENT STRATEGY STATEMENT (ISS)

## DORSET COUNTY PENSION FUND – 1 APRIL 2026

### 1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities of LGPS funds to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. This statement must be reviewed by the administering authority at least every three years, or more frequently should any significant change occur.

The regulations provide a prudential framework, within which administering authorities are responsible for setting their policy on asset allocation, risk and diversity. Administering authorities must invest, in accordance with its investment strategy, any pension fund money that is not needed immediately to make payments. The Investment Strategy Statement is therefore an important governance tool as well as providing transparency in relation to how LGPS funds' investments are managed.

All functions of Dorset Council ("the Council") as the administering authority for the Dorset County Pension Fund ("the Fund") have been delegated to the Pension Fund Committee ("the Committee"). This includes responsibility for determining the overall investment strategy and strategic asset allocation of the Fund, and in doing so taking proper professional advice.

The Fund's primary purpose is to provide pension benefits for its members. The Fund's investments will be managed to achieve a return that will ensure the solvency of the Fund and provide for members' benefits in a way that achieves long term cost efficiency and effectively manages risk. The Investment Strategy Statement therefore sets out a strategy that is designed to achieve an investment return consistent with the objectives and assumptions set out in the Fund's Funding Strategy Statement.

The Investment Strategy Statement sets out in more detail the Fund's:

- assessment of the suitability of particular types of investments, and the balance between asset classes;
- approach to risk and how risks will be measured and managed, consistent with achieving the required investment return;
- approach to investment pooling and its relationship with its investment pooling manager; and
- policy on how environmental, social or corporate governance considerations are taken into account in its investment strategy, including its stewardship responsibilities as a shareholder and asset owner.

This statement replaces the previous version of the Investment Strategy Statement (ISS) first published September 2024 and has been amended to reflect the results of the strategic allocation review agreed by the Committee 17 March 2026.

<https://moderngov.dorsetcouncil.gov.uk/ieListDocuments.aspx?CId=434&MId=6256&Ver=4>

## 2. Investment strategy and the process for ensuring suitability of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants in accordance with LGPS Regulations.

To meet this objective a major review of the Fund's strategic asset allocation is undertaken every three years shortly after the results of the triennial actuarial valuation are known. The Fund's strategic asset allocation was last reviewed in this way in 2023, advised by Mercer, an investment consultancy firm with considerable LGPS experience and expertise, and Steve Tyson, Apex Investment Advisers Limited, the Fund's independent investment adviser. The Committee also considers asset allocation at each of its quarterly meetings.

In order to prudently diversify sources of investment return and risk the Fund allocates across a variety of different asset classes. To be judged suitable for investment, asset classes must be consistent with the Fund's risk and return objectives, improve diversification and be understood by the Committee.

The Fund's current target strategic asset allocation, agreed by the Committee at its meeting 17 March 2026, is set out in the table below together with tolerances by which the actual allocation can vary without further agreement by the Committee:

<b>Asset Class</b>	<b>Allocation</b>	<b>Tolerance</b>
Listed Equity	55%	45 – 65%
(Listed) Credit	13%	9 - 17%
Private Equity	5%	2 - 8%
Private Credit	0%	0 - 0%
Property / Real Estate	9%	4 - 14%
Infrastructure	8%	4 – 12%
UK Government Bonds	9%	0 – 12%
Diversifying Return Funds (DRF)	0%	0 – 10%
Cash	1%	0 - 5%
<b>Total Assets</b>	<b>100%</b>	

In exceptional circumstances and after consultation with the Chair and/or Vice-Chair of the Committee these tolerances may be breached without prior agreement by the Committee. Any such breaches must be ratified by the Committee at its next meeting.

## 3. Risk measurement and management

Achieving satisfactory investment returns will, to a considerable degree, reflect the risks taken, and therefore the Fund seeks to understand, measure and manage risk, but not eliminate it.

There is an absolute risk of reduction in the value of the Fund's assets through negative returns. Whilst this cannot be avoided entirely, it can be mitigated by positioning the assets of the Fund across different types of assets, sectors and geographic regions.

There is also the relative risk that the Fund's investments under-perform the market, usually measured by comparison with a performance benchmark. The Fund's investment managers can, to a large extent, control relative risk by using statistical techniques to forecast how

volatile their performance is likely to be relative to their benchmark or target. Each manager has a mandate specific benchmark and controls.

Different asset classes have different risk and return characteristics. For example, equities (company shares) have produced better long-term returns than fixed interest investments but they are more volatile and have at times produced negative returns for long periods. In setting the investment strategy, the Committee considers the expected risks and returns of the various asset classes and the correlation between those returns to target or expected return within an acceptable level of risk.

Risks may also arise from a lack of suitable balance or diversification of the Fund's assets. The adoption of an asset allocation strategy and the detailed monitoring of performance and risks relative to the targets set, constrains the investment managers from deviating too far from the intended outcome, whilst at the same time allowing adequate flexibility to manage the portfolios in such a way as to enhance returns.

Other financially material risks arising from environmental, social and corporate governance (ESG) issues are required to be considered and managed by the Fund's investment managers in relation to all asset classes. The Fund's approach in this area is set out in more detail in section 5 below.

Consideration is also given to the on-going risks of a mismatch, over time, between the Fund's assets and its liabilities. The Fund's Funding Strategy Statement considers these risks in greater detail, however, the major risks that can lead to this mismatch are the impact of interest and inflation yields on liabilities.

#### **4. Approach to asset pooling**

In accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, up to 31 March 2026 the Fund participated with nine other LGPS funds to pool investment assets through Brunel Pension Partnership Ltd ("Brunel") and from 1 April 2026 participates with eight other LGPS funds to pool investment assets through Local Pensions Partnership Investment Ltd ("LPPI"). LPPI is wholly owned by the nine administering authorities (in equal shares) that participate in the pool and is authorised by the Financial Conduct Authority (FCA).

The administering authorities retain the responsibility for setting the strategic asset allocation for their pension funds and LPPI is responsible for implementing those asset allocations by investing funds' assets within defined outcome focused investment portfolios it has developed.

A detailed service agreement between the pooling company and its clients sets out the duties and responsibilities of the pooling company and the rights of the clients, including a duty of care for the pooling company to act in its clients' interests.

#### **5. Environmental, social and corporate governance (ESG) policy**

The primary aim of the Fund is to maximise the value of investments made for the benefit of the many stakeholders, including council tax payers, scheme employers, current employee contributors and pensioners. The Fund does not place restrictions on investment managers in choosing individual investments in companies or sectors in either the UK or overseas

markets and its policy is to support engagement with companies to effect change, rather than disinvestment.

The Fund has a fiduciary duty to seek to obtain the best financial return that it can for its scheme members and their employers, and all other considerations are secondary. However, the Fund is mindful of its responsibilities as a long-term shareholder and believes that in the long term better financial returns will be generated by investing in companies and assets that contribute to the long-term sustainable success of the global economy and society.

The Fund recognises the risks associated with environmental, social and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund therefore expects its external fund managers to monitor and manage the associated risks.

The Fund will work with its pooling company and pooling partners to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed. The Fund endorses and supports LPPI's approach to responsible investment:

<https://www.localpensionspartnership.org.uk/Investment-management/Responsible-investment>

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

<https://lapfforum.org/>

## Climate Change

The Fund believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks for the Fund's investments, unless action is taken to mitigate these risks. The Fund recognises that climate change will have impacts across all investment asset classes and looks to LPPI and all other investment managers to identify and manage climate-related financial risks as part of day-to-day fund management.

At its meeting September 2020, the Committee agreed a strategy of **decarbonisation**, meaning a reduction in allocations of investment to companies which are high carbon emitters and looking to influence the demand for fossil fuels and their financing, not just their supply, and not a strategy of **divestment**, meaning completely divesting from companies involved in the sourcing and refining of fossil fuels.

The Fund does not consider a top-down approach to disinvestment to be an appropriate strategy. By integrating climate change into risk management process, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, the Fund seeks to reduce unrewarded climate and carbon risk. Where companies fail to engage with climate change issues, selective disinvestment may be appropriate based on investment risk.

Significant decarbonisation has been and will continue to be achieved through the transition of assets to the management of its pooling company. As at 31 December 2025 approximately 10% of the Fund's total Investment assets were invested in a pooled global

sustainable equities fund, and all other actively managed pool funds are committed to a reduction in their carbon footprint. In addition, a significant proportion of the Fund's infrastructure investments is expected to be invested in renewable energy assets.

This process is informed by using a variety of tools in combination with industry and corporate **engagement**. The pooling company's quarterly reports considered by the Committee and publicly available include summaries of the carbon intensity and extractive exposure of its funds compared to industry benchmarks.

The Fund is aiming to transition its investments to net-zero Greenhouse Gas Emissions (GHG) by 2050 or sooner and will work to establish an appropriate baseline position and measurement techniques for the emissions of its investments so it can report against this target. The target net-zero date will be subject to review to ensure that its achievement remains consistent with the latest climate science and the Fund's fiduciary duty to achieve the investment returns required to meet future pension liabilities.

The Fund will collaborate via its pooling company, the Local Authority Pension Fund Forum (LAPFF) and other industry groups to advocate policy and regulatory reforms aimed at achieving global net zero emissions by 2050 or sooner. This will include engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.

The Fund endorses and supports LPPI's commitment to Net Zero:

<https://www.localpensionspartnership.org.uk/Investment-management/Our-net-zero-commitment>

## **6. Stewardship Policy**

The Fund is committed to responsible stewardship and believe that through stewardship it can contribute to the care, and ultimately long-term success, of all the assets within our remit. The Fund supports and applies the UK Stewardship Code 2020 definition of stewardship:

“Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”

The Fund works with or through its pooling company, the Local Authority Pension Fund Forum and/or other partners to pursue activities which are outcomes focused, which prioritise the pursuit and achievement of positive realworld goals, and where there is enhanced collaboration which focuses on collective goals to address systemic issues.

This includes, engaging with companies and holding them to account on material issues, exercising rights and responsibilities such as voting, and integrating environmental, social and governance factors into investment decision making.

The Fund endorses and supports LPPI's approach to stewardship:

<https://www.localpensionspartnership.org.uk/Investment-management/Responsible-investment>