Investment Strategy Statement 2022

1. Introduction

1.1 This is the second Investment Strategy Statement (ISS) adopted by the London Borough of Newham (LBN) Pension Fund ("the Fund") and reflects the changes to the Strategic Asset Allocation (SAA) agreed by the Pensions Committee (PC) at their meeting on 8/12/2021.

Under The Local Government Pension Scheme (LGPS)(Management and Investment of Funds) Regulations 2016 LBN is required to publish this ISS.

The Regulations require administering authorities to outline how it meets each of 6 objectives aimed at improving the investment and governance of the Fund.

1.2 This Statement addresses each of the objectives included in the 2016 Regulations, the relevant sections of which are identified below:

- Objective 7.2 (a) :A requirement to invest fund money in a wide range of instruments
- Objective 7.2 (b): The authority's assessment of the suitability of particular investments and types of investment
- Objective 7.2 (c): The authority's approach to risk, including the ways in which risks are to be measured and managed
- Objective 7.2 (d) The authority's approach to pooling investments, including the use of collective investment vehicles
- Objective 7.2 (e): The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
- Objective 7.2 (f): The exercise of rights (including voting rights) attaching to investments

We deal with each of these in turn in paragraph 2 below.

1.3 The PC of LBN oversees the management of the Fund's assets. Although not trustees, the Members of the PC owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the PC within the Council's Constitution (3.1.1.8) are:

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Corporate Director of Resources to determine as set out in the officers' scheme of delegation.

The PC has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The Corporate Director of Resources and the appointed consultants and actuaries support the PC. The day-to-day management of the Fund's assets is delegated to investment managers.

1.5 This ISS will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

1.6 Under the previous Regulations the Statement of Investment Principles required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the PC discharge their stewardship responsibilities.

2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the PC is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the PC recognise that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
- Diversity in the asset classes used
- Diversity in the approaches to the management of the underlying assets.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.3 This approach to diversification has seen the Fund dividing its assets across 3 broad categories; growth (equity and diversifying real assets, such as infrastructure and agriculture) , income (which includes bonds and property) and protection assets (which include strategies to protect the value of the equity holding and to provide protection against currency fluctuation). The size of assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.

2.4 The main risk the PC are concerned with is to ensure the long-term ability of the Fund to meet pension, and other benefit obligations, as they fall due is met. As a result the PC place a high degree of importance on ensuring the expected return on the assets is sufficient to do so, and does not have to rely on a level of risk which the PC considers excessive.

To ensure the Fund has sufficient access to cash to pay benefits, the PC keeps the liquidity within the Fund monitored.

At all times the PC takes the view that their investment decisions, including those involving diversification, in the best long term interest of Fund beneficiaries.

2.5 To mitigate these risks the PC regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the PC will keep this ISS under review to ensure that it reflects the approaches being taken.

2.6 The table in Section 5.3 provides detail on the asset allocation.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.1 When assessing the suitability of investments LBN takes into account a number of factors:

- Prospective return
- Risk, including macro-economic risk
- Concentration
- Risk management qualities the asset has, when the portfolio as a whole is considered
- Geographic and currency exposures
- Whether the management of the asset meets the Fund's Environmental, Social and Governance (ESG) criteria.

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against. In addition the Funding Strategy Statement implies the Fund as a whole should generate a return which is sufficient to support the valuation discount rate, whilst minimising risk as much as is possible and practicable.

3.3 The PC monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the PC will also compare the Fund asset performance with those of similar funds.

3.4 The PC relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

4.1 The PC recognises that there are a number of risks involved in the investment of the assets of the Pension Fund amongst which are the following:

4.2 Geopolitical and currency risks:

- are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- From time to time when it is felt necessary, explicit strategies to protect against these risks can be used.

4.3 Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

4.4 Solvency and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

4.5 Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

4.6 Custodial risk:

- is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.7 'ESG risk:

- It is recognised that ESG and ethical issues have the potential to impact on the long term financial viability of an organisation. The PC monitors both developments within the investment environment and the voting of its appointed managers, supported through regular reporting from the Fund's custodian on the voting and engagement activity of its investment managers.

4.8 Funding of the Fund is based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within section 7 of the Funding Strategy Statement. The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the Investment Managers from deviating significantly from the intended approach while permitting the flexibility for Managers to enhance returns
- The appointment of more than one Manager with different mandates and approaches provides for the diversification of Manager risk

4.9 The investment management agreements constrain the Manager's actions in areas of particular risk and set out the respective responsibilities of both the Manager and LBN.

LBN and the PC are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of LBN to meet the future contributions, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial deficit and the impact this has on contributions.

4.10 LBN and the PC are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the PC carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

The PC is also mindful that correlations change over time and at times of stress can be significantly different from they are in more benign market conditions.

To help manage risk the PC uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the PC also had different investment advisers asses the level of risk involved.

4.11 The Fund targets a long-term return that will support the discount rate set by the actuary at the triennial valuation and the Fund's Independent Adviser has confirmed that the current long-term investment strategy is expected to produce an investment return in excess of this amount. The investment strategy is considered to have a low degree of volatility and currently targets as low a volatility possible given the level of return required by the discount rate.

4.12 When reviewing the investment strategy on a quarterly basis the PC considers advice from their Investment and Economic Advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable.

4.13 At each review of the ISS the assumptions on risk and return and their impact on asset allocation will be reviewed.

4.14 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 investments. The Fund may also make use of directly held derivatives for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

5 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles.

5.1 LBN recognises the government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

5.2 In this regard the Fund has indicated to the Government in its submissions that when opportunities to have assets within the investment strategy managed by an appropriate pooling partner it will give these consideration.

LBN and the PC are aware that certain of the assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the pooling partner for the management of the majority of the Fund assets in the longer term, the PC recognises that transitioning from the current structure to the pooling partner will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

5.3 The table below shows the assets the Fund anticipates will be invested with the pooling partner, when the appropriate management becomes available, and those which it expects to sit outside of those managed by their pooling partner.

Asset Class	PC Approved SAA	Control Ranges
	%	%
Growth	**65**	
Equities	50	43 - 57
Private Equity	10	3 - 12
Infrastructure/Agriculture	5	4 - 6
Income	**35**	
Property	10	8 - 12
Social Housing	5	4 - 6
Private Credit	7.5	5 - 9
Corporate Bonds	7.5	6 - 9
Index-linked Bonds	5	4 - 6
Protection and Cash	**0**	
Equity Protection and Currency Hedging	0	0 - 5
Cash	0	0 - 5
Absolute Return Bonds	0	
Total	**100**	

5.4 The PC is in the process of transitioning the assets to the long term strategic asset allocation approved by the PC shown in the table above. This transition process takes into account market conditions and investment opportunities. Until the transition is complete asset allocations will lie in the range between the two columns in the table above with a margin of +/- 1% on each to allow for the impact of market movements.

5.5 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the PC, and in particular whether a collective investment option is appropriate.

5.6 More information on the preferred pooling partner and its operation is included in Appendix C of this statement.

6 Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

6.1 A full of review of the Fund's approach ESG policy was completed in 2019 and reviewed in 2021/22. The Fund adopted an ESG Policy which outlines its approach to the management of Environmental, Social and Governance issues within its investment portfolio. The ESG Policy is publically available and will be reviewed as deemed appropriate.

6.2 The Fund's ESG policy is set out in the Appendix.

7 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

7.1 The Fund is committed to making full use of its shareholder rights, and this is also covered in its ESG Policy. The Fund's policy on voting rights is based on the Cadbury, Greenbury and Hampel codes, as well as the stock exchange combined code, and the principles of protecting shareholder rights, minimising risk and enhancing value.

7.2 The Fund expects its Fund Managers to vote in an appropriate and informed manner and report their voting actions in their quarterly investment reports. The exercise of shareholder's rights is delegated to the Fund Managers as part of their mandate. Fund Managers will vote in accordance with their Corporate Governance Policy Statements. These policy statements have been developed with the recommendations of Institutional Shareholder Service (ISS), Pensions and Lifetime Savings Association of Pension Funds (PLSA) and the Association of British Insurers (ABI).

8 Feedback on this statement

Any feedback on this investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues then please contact:

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Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

Decision Making

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012',

Although no longer part of statutory guidance, the Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hapwood whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

Principle 1 - Effective decision-making

Administrating authorities should ensure that:

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

Full Compliance

The council has delegated the management and administration of the Fund to the PC, which meets at least quarterly. The responsibilities of the PC are described in paragraph 1.4 of the Investment Strategy Statement.

The PC is made up of elected members of the Council who each have voting rights and has representatives from the admitted and scheduled bodies within the Fund and from trade unions, as observers.

The PC obtains and considers advice from and is supported by the Corporate Director of Resources y, One Source and as necessary from the Fund's appointed actuary, investment managers and advisors. A review of the investment advice received by the Fund was completed in 2022, to ensure it continues to be fit for purpose in the changing investment and legislative environment.

The PC has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the PC annually and progress is monitored on a quarterly basis.

Several of the PC members have extensive experience of dealing with Investment matters and training is made available to new PC members. PC Members have been asked to undertake 22 hours of investment training a year – there is an on-going programme of training available to members. The PC has adopted the CIPFA Knowledge and Skills Framework.

Principle 2 - Clear objectives

An overall investment objective(s) should be set for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full Compliance

The aims and objectives of the Fund are set out within the Funding Strategy Statement and within the Investment Strategy Statement. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full Compliance

The PC has, in conjunction with its advisers, agreed an Investment Strategy that is related to the Fund's liabilities. An actuarial valuation of the fund takes place every three years, the 2019 valuation is completed and the 2022 valuation is being produced at the date this report was considered by the PC. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The Investment Allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The Strategic Asset Allocation is outlined in paragraph 5.3 of the Investment Strategy Statement.

During 2021/22, the Fund refreshed its Admitted/Scheduled Body policy, which outlines its approach to assessing the strength of the covenant for participating employers and the risk assessment undertaken when new employers wish to join the Fund.

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members

Full Compliance

The PC has appointed investment managers with clear index strategic benchmarks within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Barnett Waddingham, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures and its eventual replacement.

The PC monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the PC receive quarterly reports as to how the Fund has performed against their investment objective. The performance figures are included in the extract from the accounts which is included in the Fund's annual report.

Principle 5 – Responsible Ownership

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the Investment Strategy Statement.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 7.1 of the Investment Strategy Statement and in the Fund's ESG Policy. Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7.2 of the Investment Strategy Statement and in the Fund's ESG Policy.

A full of review of the ESG polices of current Fund Managers and their compliance with the Financial Reporting Council's Stewardship Code was completed 2019, and the results were reported to the PC.

This Investment Strategy Statement and the ESG Policy are both publically available to all scheme members.

Principle 6 – Transparency and reporting

Administering authorities should:

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.**
- **Provide regular communications to scheme members in the form they consider most appropriate.**

Full Compliance

Links to the Governance Compliance Statement, the Investment Strategy Statement, the Funding Strategy Statement, the ESG Policy and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, internal intranet and a website developed specifically for the Fund.

http://teamsite.lbn.newham.gov.uk/NewhamPensionFund/

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet. The Fund's Annual Report includes an assessment of the Fund's performance and an extract from the accounts is sent to stakeholders annually.

Investment Strategy Statement: Appendix B

Compliance with the Stewardship Code

The UK Stewardship Code 2020 (the Code) sets high stewardship standards for asset owners and asset managers, and for service providers that support them.

The Code comprises a set of 'apply and explain' Principles for asset managers an asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

The 12 principles are set out below:

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates longterm value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2. Signatories' governance, resources and incentives support stewardship.
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.
6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.
9. Signatories engage with issuers to maintain or enhance the value of assets.
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.
12. Signatories actively exercise their rights and responsibilities.

Investment Strategy Statement: Appendix C - Information on Pooling Partner

The Fund has selected the London CIV as its pooling partner.

The London Collective Investment Vehicle (LCIV) investors (Client Funds) are 32 of the London Local Authorities (including the City of London). Each Local Authority is responsible for a separate Local Government Pension Fund which covers employees and ex-employees in the Authority along with a range of other employers in the Pension Fund.

The Client Funds are also London CIV's shareholders and London CIV works in collaboration with client funds to deliver their pooling requirements.

The London CIV has £11.2bn invested (at 31/3/21) and has 22 funds available.

The Fund accesses its global bond fund holding through the LCIV Global Bond Fund.

In addition the index-tracking funds with Legal & General Investment Management ('LGIM') are deemed to be pooled under the DLUHC guidance.

Investment Strategy Statement: Appendix C – ESG Policy

To be added when available

http://teamsite.lbn.newham.gov.uk/NewhamPensionFund/