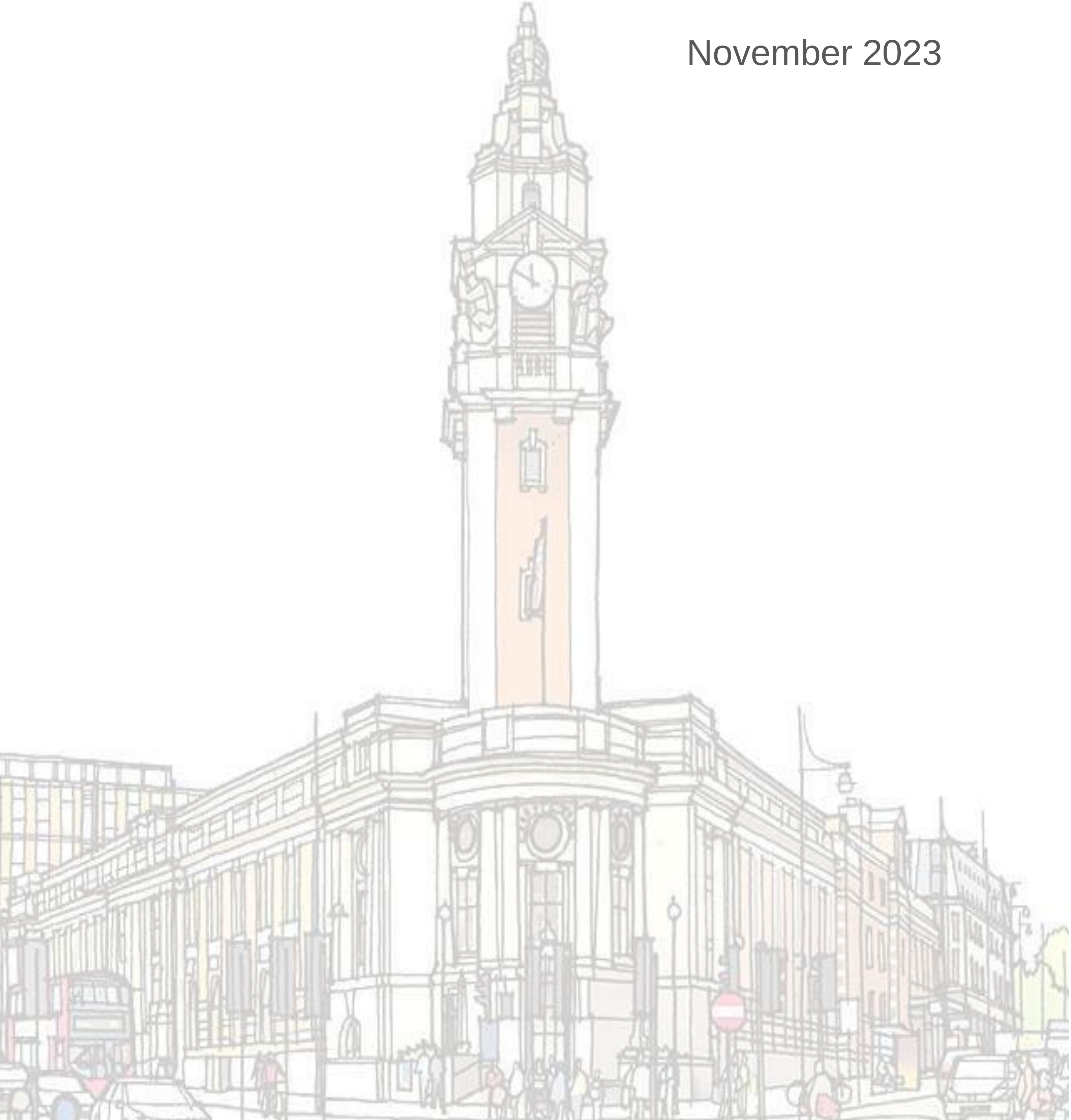
LONDON BOROUGH OF LAMBETH PENSION FUND

Investment Strategy Statement



November 2023

Investment Strategy Statement

London Borough of Lambeth

Administering Authority for the London Borough of Lambeth Pension Fund

Statutory Requirement for an Investment Strategy Statement (ISS)

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.

In England and Wales, such a scheme was created by the Local Government Pension Scheme Regulations 2013 (The Regulations). These Regulations were made by the Secretary of State exercising powers in the Superannuation Act 1972.

Under powers contained in The Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replace the 2009 Investment Regulations. These regulations came into force on 1st November 2016.

Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State.

The Investment Strategy Statement (ISS) is a document that replaces, and largely replicates, the Statement of Investment Principles under the proposed Investment Regulations. Administering Authorities will be required to prepare and maintain an ISS documenting how the investment strategy for the fund is determined and implemented. The ISS will be required to cover a number of areas, specifically:

(a) A requirement to invest money in a wide variety of investments;

(b) The authority's assessment of the suitability of particular investments and types of investments;

(c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

(d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services

(e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments. This, in effect replaces Schedule 1 of the 2009 Regulations.

This document is designed to comply with the guidance given by the Secretary of State and is effective from November 2023. It is proposed to review the ISS annually with any material changes published, which is more frequent than the Regulations require but deemed appropriate.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- The Pension Fund Annual Report and Accounts
- Actuarial Valuation.

Background to the Fund

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Lambeth Pension Fund, in effect the LGPS for the London Borough of Lambeth, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

Primary Objective

The primary objective of the Fund is as follows:

To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.

This overall objective is supplemented by the Fund's funding and investment objectives which are detailed in this document.

1. Approach to risk, including the ways in which risks are to be measured and managed.

Objectives of the Investment Strategy

The Fund's primary investment objective is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Fund also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Fund. In formulating the Investment Strategy, the Fund must first consider its Funding Strategy.

Funding Strategy

The objectives of the Fund's funding strategy, as detailed in the Funding Strategy Statement, are as follows:

- To ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government.

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target.

Setting the Strategy

In assessing the suitability and variety of investments, and considering the risks, the starting point should be the Fund's overall objectives. The objectives for the Lambeth Fund are considered below:

To invest in assets to target as a minimum a rate of return of 3.4% p.a. consistent with the annual growth in liabilities assumed in the actuarial valuation as at 31 March 2022 with the weighting between constituent asset classes determined to reduce the expected volatility of the funding level going forward.

The Committee has determined its investment strategy after considering the Fund's liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Employers on investment strategy and the Employers' appetite for risk. The Committee have also received written advice from their Investment Advisers.

Against these strategic targets, the Committee reviews its Investment Strategy at least triennially (every three years) and reviews the investment performance (on a quarterly basis). In doing so the Committee considers the risk/return characteristics of each asset class and sub-asset class in this assessment. The Lambeth Pension Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The Committee recognise the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. In the first instance, the Committee would consider the options available on the London CIV to select and manage the allocations across asset classes. Where there are currently no suitable options at the pool, the Fund will engage with the pool and partner funds in order to facilitate the launch of new investment options. Where this is not possible, and as a last resort, the Committee will appoint investment managers outside of the pool.

In assessing the suitability of investments required to form the overall portfolio the Lambeth Fund considers a number of characteristics of each asset class, and sub asset class. These characteristics include potential return, risk/volatility of returns, liquidity, Environmental, Social and Governance (ESG) factors, and duration and interest rate sensitivity. In setting and reviewing an overall investment strategy for the Lambeth Fund the starting point is always the Actuary's assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long-term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

The Committee takes all such decisions themselves. They do so after receiving written advice from their officers and investment adviser. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives;
- Determining the split between the growth and the stabilising portfolios;
- Determining the allocation to asset classes within the growth and stabilising portfolios;
- Determining the Fund strategic asset allocation; and
- Reviewing the investment objectives and strategic asset allocation.

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

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

The Fund's strategic allocation, as set out below, does not assume any outperformance from the investment managers. The rebalancing range in the table below acts to ensure the actual asset allocation does not deviate materially from the strategic allocation.

The asset strategy is set out in the table below:

Asset Class	Strategic allocation (%)	Rebalancing range (%)
Developed Global Equity	32.5	27.5 – 37.5
Emerging Market Equity	5.0	3.0 – 7.0
Property	10.0	6.0 – 14.0
Private Credit	12.0	8.0 – 16.0
MAC	12.0	8.0 – 16.0
Private Equity	7.5	4.0 –11.5
Corporate Bonds	5.0	3.0 – 7.0
LDI	15.0	10.0 – 20.0
Cash	1.0	0.5 – 3.0

The Committee is responsible for the Fund's asset allocation which is determined via a triennial strategy review as part of the valuation process but is kept under constant review; noting that strategic changes are an evolutionary process.

There will be no automatic rebalancing of the portfolio. The actual allocation, relative to the strategic allocation, will be reviewed on a periodic basis and rebalanced if deemed necessary. Officers will carry out the necessary transactions to rebalance the Fund within the ranges agreed by the Committee and in line with delegated responsibilities. When rebalancing, assets will not be brought back to the absolute strategic allocation but to a position that falls somewhere halfway between the target and lower or upper range as relevant; this recognises the delay that can occur between the reporting of variances and the rebalancing action.

The triennial review looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due;
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit;
- An analysis of the order of magnitude of the various risks facing the Fund is established in order that a priority order for mitigation can be determined; and
- The desire for diversification across asset class, region, sector, and type of security.

3. Risk measurement and management

The Fund recognises that there are a number of risks that need to be factored into the Investment Strategy, and the expected estimates of volatility are reflected in the asset classes and strategic asset allocation shown in the table above. The financial, demographic and regulatory risks are addressed in the Funding Strategy Statement, and so are not repeated here. This statement looks to address the financial risks for the Fund, in particular the risk of the performance of the Fund's assets not achieving the actuary's expected rate of return. The following paragraphs explain Lambeth's approach to addressing this risk.

Investing heavily in higher risk assets (e.g. equities) would be expected to increase the long term returns achievable from the assets, and thus reduce the contributions required to fund the liabilities over time. However, this type of strategy would be expected to lead to volatile short to medium-term results, both in absolute terms and, in particular, relative to the Fund's liabilities.

Equally, whilst investing in lower risk assets (e.g., bonds) would be expected to reduce risk within the Fund (in terms of the volatility of returns, the funding level and contribution rates), this may not be desirable as it would lead to a lower expected return and hence higher contribution rates over the long term.

In considering the Fund's investment strategy, the Committee must therefore bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

Investment, by its very nature, is a risk-based activity where the returns achieved will reflect differing levels of accepted risk. There are a number of investment risks to consider within an investment fund; a number of these are considered below:

A Investment Risks

Equities – The largest risk that the Fund is running is in relation to its equity holdings. Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Fund, but also believes in diversification, and looks to mitigate equity risk by investing significantly in other diversifying assets. The Committee will also consider the use of equity options where appropriate.

Currency Risk – This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to sterling, thus negatively impacting the overall investment return.

Interest Rate Risk – This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments. The Committee acknowledges that the interest rate risk related to individual debt instruments, and particularly liability driven instruments (LDI), is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management, and hedging via swaps, particularly where LDI is involved.

Inflation – The Fund's liabilities are impacted by inflation both explicitly and implicitly and the required return on assets is expressed in terms of inflation plus a premium. The Fund will seek to invest in a range of assets that provide returns in excess of inflation and in some cases provide an inflation-linked income, subject to a tolerable level of volatility. The Committee acknowledges that inflation risk relating to the Fund's liabilities is managed by the underlying investment managers through a combination of strategies, such as diversification and investing in assets and instruments that are expected to move in line with inflation over time, particularly where LDI is involved.

Diversifying Assets – The Fund has a significant amount of assets allocated to a range of non-equity, diversifying assets, with allocations to property, corporate bonds, MAC and private debt. The risks that these investments bring at an individual level are not insignificant, but the Committee believes that over the long term these assets will provide returns that compensate for the risks being taken. Additionally, the level of diversification the assets provide helps to reduce the Fund's reliance on returns from equities. Illiquid assets such as property are also a valuable source of income. The Fund's portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes the Fund, by investing in a range of different investments, can reduce the overall level of risk run to a degree.

Active Manager Risk – Investment Managers are appointed to manage the Fund's investments on its behalf, a number of which are active managers. Active manager risk is small relative to other risks, though the Fund still addresses this risk. Extensive due diligence is undertaken before managers are selected, with a number of different managers employed to prevent manager concentration risk. The investment managers are also monitored regularly by the London CIV, the Committee and by the Fund's Advisors.

B Demographic Risks

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

C Solvency Risks

Mismatching Risk – The Fund measures this through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities. These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

Cash Flow Risk – The Fund is cash flow positive, with contributions and income from investments exceeding benefit payments. However, this position will be reviewed regularly and is a factor that is incorporated into the Fund's investment strategy reviews with the long-term aim that a portfolio of income generating assets is built up over time.

D Governance Risks

The Committee believes that there is a benefit to the Fund to be gained from good governance in the form of increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit.

The Committee manages this risk by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Committee from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Fund's advantage.

E ESG Risks

The Committee believes that ESG (including climate change) risks should be taken into account on an ongoing basis. ESG considerations are an integral part of the Fund's strategy and objective of being a long-term investor. Section 5 sets out the Fund's policy on ESG issues whilst section 6 sets out the Fund's policy on the exercise of rights in relation to investments and stewardship.

The Committee believes that a combination of both engagement and exclusion (as necessary) is key in relation to strong corporate governance, which in turn will reduce ESG risks.

4. Approach to asset pooling

LGPS Investment Regulation 7(2) (d) requires that all authorities commit to a suitable pool to achieve benefits of scale. It also requires that administering authorities confirm the chosen investment pool meets Government's investment reform criteria, or to the extent that it does not, that Government is content for it to continue.

The Lambeth Fund is part of the London Collective Investment Vehicle (London CIV) as part of the Government's pooling agenda. The London CIV has been operational since 2015 and has opened a range of sub-funds covering liquid and illiquid asset classes.

At the time of writing the Fund has invested in a multi-asset credit mandate and also has invested all its liquid equity mandates through the London CIV (c. £960m or c.57% as at 30 June 2023). It has also committed £50m to the London CIV UK Affordable Housing Fund, and will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

A proportion of the Fund is invested in illiquid assets outside of the pool, which will remain outside of the London CIV for the time being. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds are re-invested through the pool, assuming it has appropriate strategies available, or until the Fund changes asset allocation and makes a decision to disinvest.

The Fund will actively engage and seeks to work collaboratively with likeminded Funds and the London CIV on climate change and ESG topics, including the provision of fund alternatives that will help London CIV members reduce ESG risks and invest in sustainably themed opportunities in their investment portfolios.

5. Environmental, Social and Governance policy

The Committee believes that good stewardship can enhance long-term portfolio performance and is therefore in the best interests of its members.

The Committee believes that environmental, social and governance ("ESG") and ethical issues can affect the performance of investment portfolios and should therefore be considered as part of the Fund's investment process. This includes climate change, for which the Committee has developed a policy as summarised at the end of this section.
The London Borough of Lambeth Pension Fund is a long-term active investor that takes seriously its role in fostering stewardship. The Committee believes that sound corporate governance contributes to long-term value for our clients. These high-level policies set out the Funds' philosophy on corporate governance and its approach to voting on behalf of clients.

Voting rights give shareholders both the opportunity and responsibility to participate in the stewardship of companies, and the Fund's policy on exercising voting rights is explained in section 6 below.

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition, the Pensions Committee undertakes training on a regular basis which will include training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all Fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund including corporate governance, social and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, the Lambeth Pensions Board, advisers to the Fund and other parties that it deems appropriate to consult with.

Climate Change

The Fund recognises the importance of addressing financial risks associated with climate change through its investments.

The Fund believes that considering the impact of climate change is not only the legal and fiduciary duty of the Fund, but is also consistent with the long-term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders.

The Fund acknowledges that as well as creating risk, climate change also presents opportunities to make dedicated investments that achieve the required returns, whilst at the same time make a positive environmental and social impact.

The Committee expects its investment managers to include information on how carbon emissions and fossil fuels are being managed within their respective portfolios as part of regular reporting for the Fund.

The Fund has committed to reduce climate change risk by reducing carbon emissions within the Fund's portfolio. The Committee expects to regularly review further opportunities, across all asset classes, to reduce the Fund's exposure to climate risk by considering the potential financial impacts of both the transition to a low-carbon economy and the physical impacts of different climate outcomes.

As part of the Fund's commitment to responsible investing, the Fund's Pensions Committee voted unanimously to adopt a 2040 net zero greenhouse gas (GHG) emissions target for the Fund.

The target reflects the Fund's ambition to reduce its GHG emissions, and recognises that urgent and ambitious action is necessary to continue to address the climate crisis, whilst meeting the fiduciary duty owed to the Fund's beneficiaries.

As a client Fund of the London CIV, the Fund is dedicated to working in collaboration with the pool in order to achieve its net zero target. The Fund is pleased that the London CIV is also aligned with the Fund in targeting net zero by 2040.

The Fund acknowledges that the London CIV is imperative in the process of achieving the net zero target, since the pool is responsible for providing members with sub-funds that are aligned to net zero ambitions. The Fund continues to work with the London CIV and other partner funds on this, and looks forward to creating a more detailed plan to achieve this goal, the first step of which will be to introduce interim targets for the Fund.

6. Policy of the exercise of rights (including voting rights) attaching to investments and stewardship

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

As responsible shareholders, the London Borough of Lambeth Pension Fund will endeavour to vote (via our agents) on shareholder resolutions in accordance with these policies. We will be transparent in explaining the reasons for voting decisions. As companies vary in size and complexity, these policies must allow for some flexibility, with due consideration to the particular circumstances of each company. Moreover, corporate governance requirements may be expressed differently in different markets; these policies will be applied in a way that reflects an understanding of local and international good practice.

The Fund's investments through the London CIV are covered by the voting policy of the pool which has been agreed by the Shareholder Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The London CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

UK Stewardship Code

The Financial Reporting Council (FRC) first published the UK Stewardship Code (the "Code") in 2010 which has subsequently been revised a number of times. The Code aims to enhance the quality of engagement between asset owners, asset managers and companies to help improve long-term risk-adjusted returns to shareholders.

The latest version of the Code took effect from 1 January 2020, and represents a substantial and ambitious revision to the previous version. The Code consists of 12 Principles for asset managers and asset owners, and six Principles for service providers. These are supported by reporting expectations which indicate the information that should be publicly reported in order to become a signatory.

The London Borough of Lambeth, as administering authority for the Fund, successfully received signatory status for the new Code in March 2021. The Fund is committed to maintaining signatory status through annual submissions to the FRC. Signatory status recognises that the Lambeth Fund demonstrates high standards for the way it invests its money on behalf of its members, evidencing compliance against a wide range of principles concerning the responsible allocation, management, and oversight of funds.

The Fund's latest submission can be found on the FRC website and the Fund's website.

The Fund expects its external investment managers to be signatories of the Code. Where this is not feasible the Fund expects a detailed explanation as to why the manager is not a signatory.

Advice Taken

In creating this statement, the Committee has taken advice from its Investment Consultant, Mercer Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant, Mercer, and the Scheme Actuary, Hymans Robertson. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.