

***LONDON BOROUGH OF HARROW
PENSION FUND***

INVESTMENT STRATEGY STATEMENT

29 March 2023



CONTENTS

Executive Summary

1. Introduction
2. Statutory background
3. Directions by Secretary of State
4. Advisers
5. Objective of the Fund
6. Investment beliefs
7. The suitability of particular investments and types of investments
8. Asset classes
9. Fund managers
10. Stock lending
11. Approach to risk
12. Approach to pooling
13. Social, environmental and governance considerations
14. Exercise of the rights (including voting rights) attaching to investments
15. Stewardship

Executive Summary

The London Borough of Harrow Pension Fund Investment Strategy Statement has been prepared in accordance with the relevant Local Government Pension Scheme Regulations.

The objective of the Fund is to provide pension and lump sum benefits for its members and their dependants.

To assist in the achievement of this objective the Fund makes investments in accordance with:

- ❖ its investment beliefs;
- ❖ its asset allocation strategy reflecting its views on the suitability of particular investments and types of investments;
- ❖ its approach to risk, including its measurement and management;
- ❖ its approach to pooling;
- ❖ its policy on social, environmental and governance considerations; and
- ❖ its policy as regards the stewardship of its assets including the exercise of voting rights.

1. Introduction

- 1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Harrow Pension Fund adopted by Harrow Council (the Council) in its capacity under Regulation 7 of the Local Government Pension Scheme as Administering Authority of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.
- 1.2 The Council has delegated to its Pension Fund Committee (“the Committee”) “all the powers and duties of the Council in relation to its functions as Administering Authority save for those matters delegated to other committees of the Council or to an officer.”
- 1.3 The ISS has been prepared by the Committee having taken appropriate advice. It meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).
- 1.4 The ISS, which was last approved by the Committee in September 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee will consult on the contents of the Strategy with each of its employers, the Pension Board and the trade union observers. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement.
- 1.5 The amendments to the investment policy reflect the results of the Investment Strategy Review and Asset Liability Modelling exercise that was undertaken in 2020.

2. Statutory background

- 2.1 Regulation 7(1) of the Regulations requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.
- 2.2 The ISS required by Regulation 7 must include:
 - 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 policy 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.
- 2.3 The ISS must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

3. Directions by Secretary of State

- 3.1 Regulation 8 of the Regulations enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Department for Communities and Local Government.
- 3.2 The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.
- 3.3 The power of Direction can be used in all or any of the following ways:
 - a) To require an administering authority to make changes to its investment strategy in a given timescale;
 - b) To require an administering authority to invest assets as specified in the Direction;
 - c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and
 - d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.
- 3.4 Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013, reports from the Scheme Advisory Board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

4 Advisers

- 4.1 Regulation 7 of the Regulations requires the Council to take proper advice when making decisions in connection with the investment strategy of the Fund. In addition to the expertise of the members of the Pension Fund Committee and Council officers, such advice is taken from:
- Aon Solutions UK Ltd ("Aon") – investment consultants
 - The Fund's Independent advisers
 - The Director of Finance & Assurance
 - The Council's Legal Services
 - The Fund's investment managers
- 4.2 Actuarial advice, which can have implications for investment strategy, is provided by Hymans Robertson LLP

5 Objective of the Fund

- 5.1 The 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, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (i.e. the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.
- 5.2 The assets of the Fund are invested with the primary objective being to achieve a return that is sufficient to meet the funding objective as set out above, subject to an appropriate level of risk and liquidity. Over the long-term it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.
- 5.3 Related objectives are to seek to minimise the level and volatility of employer contributions necessary to meet the cost of pension benefits.

6 Investment beliefs

- 6.1 The Fund's fundamental investment beliefs which inform its strategy and guide its decision making are:
- The Fund has a paramount duty to seek to obtain the best possible return on its investments taking into account a properly considered level of risk.
 - A well-governed and well-managed pension fund will be rewarded by good investment performance in the long term
 - Strategic asset allocation is the most significant factor in investment returns and risk; risk is only taken when the Fund believes a commensurate long term reward will be realised

- Asset allocation structure should be strongly influenced by the quantum and nature of the Fund's liabilities and the Funding Strategy Statement
- Since the lifetime of the liabilities is very long, the time horizon of the investment strategy should be similarly long term
- Equities are likely to outperform most other asset classes in the long term and, in view of its current assets / liabilities structure, the Fund's investments should maintain a significant allocation towards this asset class
- Performance advantage is likely to be realised from the successful selection of active asset managers
- Risk of underperformance by active equity managers is mitigated by allocating a significant portion of the Fund's assets to a passive equities manager and other asset classes
- The impact of currency mismatches is mitigated by implementing a currency hedging strategy
- Long-term financial performance of companies in which the Fund invests is likely to be enhanced if they follow good practice in their environmental, social and governance policies
- Costs need to be properly managed and transparent

7 The suitability of particular investments and types of investments

- 7.1 The Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for investment strategy.
- 7.2 The Committee has translated its investment objective into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.
- 7.3 The approach seeks to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members) and the liabilities arising therefrom, together with the level of disclosed surplus or deficit (relative to the funding bases used).
- 7.4 The Committee, as advised by Aon, considered the Fund's investment strategy in light of the 2019 Actuarial Valuation. In September 2020 the Committee agreed with Aon's recommendation that the Fund's high-level allocation be split into three 'buckets': Equities; Diversifying Return Assets; and Risk Control Assets. Subsequently the underlying allocations within each of these 'buckets' has been reviewed. The resultant strategic asset allocation benchmark for the Fund is detailed in the table below.

ASSET CLASS	MANAGEMENT APPROACH	Strategic	
		ALLOCATION	RANGE
		%	%
Equity Bucket		50.0	45.0 - 55.0
Global	Passive, Low Carbon	24.0	
Global	Active	10.0	
Global	Active, Sustainable	8.0	
Emerging Markets	Active	8.0	
Diversifying Returns Bucket		25.0	20.0 - 30.0
Property	Active	7.5	
Infrastructure	Active	7.5	£68m Committed
Diversified Growth	Active	5.0	£50m committed
Source of funds*		5.0	
Private Equity**	Active	0.0	
Risk Control Bucket		25.0	20.0 - 30.0
UK Corporate Bonds	Active	5.0	
Global Bonds	Active	5.0	
Index-Linked Bonds	Passive	5.0	
Multi-Asset Credit	Active	10.0	
TOTAL***		100.0	

*Source of funds allocation represents assets to be deployed after consideration of options available, including with the London CIV. Assets to be held in the Diversified Growth Fund until suitable opportunities identified. The Committee have identified a Renewable Infrastructure Fund as the first investment for this allocation.

** note that the Fund has a residual allocation to Private Equity, which is winding down.

*** the Fund may also hold an allocation to Cash. This is generally held for liquidity purposes, including waiting for drawdowns in respect of illiquid assets,

7.5 Under the existing strategy, the rationale for the three 'buckets' is:

- **Equities:** The main return driver in the Pension Fund's investment strategy;
- **Diversifying Return Assets:** Assets whose role is to generate returns (similar to the role of Equities), but which provide additional diversification.
- **Risk Control Assets:** Assets which target a lower level of return than Equities, but with a lower level of risk. These assets typically have some links to the characteristics of the Pension Funds' pensions in payment (e.g. inflation) and the growth in pensions to be paid in the future.

- 7.6 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:
- Suitability and diversification given the Fund's level of funding and liability profile
 - The level of expected risk
 - Outlook for asset returns
- 7.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate from within the target range. If such a deviation occurs, except for closed ended investments (e.g. private equity and infrastructure) which are subject to distributions and drawdowns, a re-balancing exercise is carried out. If necessary the Section 151 officer has delegated authority to undertake rebalancing but any such rebalancing activity is reported to the next meeting of the Committee.
- 7.8 It is intended that the Fund's investment strategy will be reviewed at least every three years, following actuarial valuations of the Fund. The investment strategy review will typically involve the Committee, in conjunction with its advisers, undertaking an in-depth Asset Liability Modelling exercise to understand the risks within the Fund's current investment strategy and establish other potentially suitable investment strategies for the Fund in the future.
- 7.9 The table below shows the 10 year expected returns and volatilities for the asset classes modelled as part of the investment strategy review (data as at 31 March 2019, the date of the Actuarial Valuation):

Asset Class	31 Mar 2019 Returns	31 Mar 2019 Volatility
UK Equity	6.7%	19.0%
Developed Market Equity	6.7%	19.5%
Emerging Market Equity	8.2%	28.0%
Private Equity	8.2%	27.5%
Infrastructure (European)	7.2%	18.5%
Diversified Growth (Cap Pres)	4.4%	9.0%
UK Property	5.2%	12.5%
Multi-Asset Credit (High Yield)	4.4%	10.0%
UK Corporate Bonds (10y AA)	1.9%	9.0%
Fixed Interest Gilts (15y)	1.4%	11.0%
Index-Linked Gilts (20y)	0.2%	10.5%
RPI inflation	3.1%	1.0%
Cash	1.2%	0.5%

Source:Aon

- 7.10 Further details on the Fund's risks, including the approach to mitigating them, is provided in section 11.

8 Asset classes

- 8.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.
- 8.2 In line with the Regulations, the Council's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.
- 8.3 Apart from the maximum level of investments detailed in the table above the Fund has no further restrictions.
- 8.4 The majority of the Fund's assets are highly liquid and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. Assets in the Fund that are considered to be illiquid include property, infrastructure and private equity. As a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.
- 8.5 For most of its investments the Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

9 Fund managers

- 9.1 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles.
- 9.2 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Some managers, such as private equity and infrastructure managers, are remunerated through fees based on commitments and also performance related fees.
- 9.3 Except for the passive global equities manager, the managers are expected to hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.
- 9.4 The management agreement in place for each fund manager, sets out, where relevant, the benchmark and performance targets. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with The Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.
- 9.5 As at the date of this Investment Strategy Statement, the details of the managers appointed by the Committee are as follows:

Manager	Asset Class	Management Approach	Benchmark	Target
London CIV	Global Equities (Longview)	Active	MSCI World Index (GBP) Total Return (Net)	Achieve capital growth
	Global Equities (RBC)	Active, Sustainable	MSCI World Index Total Return (Net) in GBP	Outperform the benchmark by 2% p.a. (net) over rolling 3 year periods
	Emerging Market Equities (JP Morgan)	Active	MSCI Emerging Market Index Total Return (Net) in GBP	Outperform the benchmark by 2.5% (net of fees) over a rolling 3 year period
	Global Credit (PIMCO)	Active	Barclays Aggregate – Credit Index Hedged (GBP) Index	Outperform the benchmark over a rolling 3 year period (net of fees)
	Multi-Asset Credit (CQS)	Active	SONIA	SONIA +4.5%, with volatility of 4%-6% p.a. over rolling 4 year period (net of fees)
	Infrastructure (Stepstone)	Active	8% - 10% p.a. and cash yield of 4% - 6% p.a.	
	Renewable Infrastructure	Active	7% - 10% p.a. and cash yield of 3% - 5% p.a.	
BlackRock	Global Equities	Passive, Low Carbon	MSCI Low Carbon Target Reduced Fossil Fuel Select Index	Track the benchmark
	UK Credit	Active	iBoxx Sterling non-Gilts 10+ Years Index	Outperform the benchmark over the long term (5 consecutive years)
	UK Index Linked Gilts	Passive	FTSE Actuaries UK Index-Linked Gilts over 5 Years Index	Track the benchmark
	Cash*	Passive	Sterling Overnight Index Average Rate (SONIA)	Maximise income on the investment consistent with maintaining capital and ensuring the underlying assets can easily be bought or sold in the market (in normal market conditions)
Insight	Diversified Growth	Active	SONIA	SONIA + 4.5% p.a. gross of fees
La Salle	Property	Active	MSCI/AREF All Property Fund Index	Outperform the benchmark, by maximising total return through a combination of capital growth and income return.

Pantheon	Private Equity	Active	<ul style="list-style-type: none"> Europe Fund V 'A' LP - MSCI Europe Net TR; FTSE Europe Net TR USA Fund VII LP – S&P 500 Total Return Net Index; Russell 2000 Net TR; MSCI US Total Return Net Index Global Secondary Fund III 'A' LP - FTSE All-World Net TR; MSCI AC World Net TR; 	Outperform the relevant benchmarks by 3-5%
Record	Currency Hedging	Passive	To provide a passive currency hedge of 50% of the Fund's global equity exposure	

* Cash is generally held for liquidity purposes, including waiting for drawdowns in respect of illiquid assets

- 9.6 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through pooled funds, the funds appoint their own custodians.
- 9.7 Performance targets are generally set on a three-year rolling basis and the Committee monitors manager performance quarterly. Advice is received as required from officers, the professional investment adviser and the independent advisers. In addition, the Committee requires managers periodically to attend its meetings.
- 9.8 The Council also monitors the qualitative performance of the Fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration.

10 Stock lending

- 10.1 Stock lending is permitted in pooled funds where applicable. Details of investment managers' procedures and controls are available on request.

11 Approach to risk

- 11.1 The Committee has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.
- 11.2 At least once a year the Committee reviews its risk register which details the principal risks identified and the Committee's approach to managing them. The Funding Strategy Statement also includes a section on risk and the ways it can be measured and managed.
- 11.3 The most significant investment risks and methods of managing them are summarised in paragraphs 11.4 – 11.6 below.
- 11.4 Whilst the objective of the Committee is to maximise the probability of achieving the required return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Committee acknowledges that the predominantly equity based investment strategy may entail risk to contribution stability, particularly due to the short term volatility that equity investments can involve. The long term nature of the Fund and the expectation that longer term returns from equity investments will exceed those from bonds mean, however, that a significant equity allocation remains an appropriate strategy for the Fund.
- 11.5 A policy of diversification for its investments and investment managers helps the Committee to mitigate overall risk. Benchmarks and targets against which investment managers are expected to perform are further measures put in place to manage the risks for the Fund.
- 11.6 The Committee looks to balance investment returns with ensuring the Fund has sufficient liquidity and cashflow available to meet benefit payments. More than 60% of the fund is invested in highly liquid strategies such as equities and bonds.
- 11.7 Funding risks
- 11.7.1 The major funding risks identified are:
- Fund assets are not sufficient to meet long term liabilities
 - Relative movement in value of Fund assets does not match the relative movement in Fund liabilities
 - Demographic movements, particularly longevity, structural changes in membership and increases in early retirements. and
 - Insufficient assets to meet short and medium term liabilities

11.7.2 The Committee measures and manages these potential financial mismatches in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling undertaken in 2020 which focused on probability of success and level of downside risk. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

11.7.3 The Committee also seeks to understand the assumptions used in any analysis and modelling so that they can be compared to their own views and to enable the level of risks associated with these assumptions to be assessed.

11.7.4 Demographic factors including the uncertainty around longevity / mortality projections (e.g. longer life expectancies) contribute to funding risk. There are limited options currently available to fully mitigate or hedge this risk. The Council monitors liabilities using a specialist service provided by Club Vita, a "sister" company of the Fund's Actuary, Hymans Robertson. Club Vita carries out a comprehensive analysis of the Fund's longevity data to facilitate an understanding which helps to manage this issue in the most effective way.

11.8 Asset risks

11.8.1 The major asset risks identified are:

- Significant allocation to any single asset category and its underperformance relative to expectation.
- General fall in investment markets
- Failure by fund managers to achieve benchmark returns

11.8.2 The Committee measure and manage asset risks as follows:

- The Fund's strategic asset allocation policy requires investments in a diversified range of asset classes, markets and investment managers. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds the Committee has recognised the need for access to liquidity in the short term.

- The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing several managers and having a significant portion of the Fund's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.
- The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling. Approximately 10 major currencies are hedged most notably the US Dollar, Japanese Yen and Euro.

11.9 Security risks

11.9.1 The major security risks identified are:

- Investment manager may not have an appropriate control framework in place to protect and value Fund assets
- Custody arrangements may not be sufficient to safeguard fund assets
- Counterparty default in stock lending programme and foreign exchange forward contracts

11.9.2 The Committee monitors and manages risks in these areas through the regular scrutiny of the audit of the operations independently conducted for each of its investment managers. Where appropriate (e.g. custody risk in relation to pooled funds), the Fund has delegated such monitoring and management of risk to the appointed investment managers. The Committee has the power to replace a provider should serious concerns arise.

12 Approach to pooling

- 12.1 In line with the Government's pooling agenda the Fund, along with all London boroughs, is a shareholder and participating scheme in London LGPS CIV Limited ("London CIV"). The London CIV is authorised by the Financial Conduct Authority as an Alternative Investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme fund. The structure and basis on which the London CIV is operating were set out in the July 2016 submission to Government.
- 12.2 The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. At each of its meetings the Committee considers an update report on progress.
- 12.3 At the time of preparing this Statement approximately 33% of the Fund's assets were invested through the London CIV, with a further 25% of assets invested in pooled passive vehicles which are deemed to be compliant with pooling regulations. Once the Fund's revised investment strategy has been fully implemented, with the commitments to the London CIV Infrastructure Fund and London CIV Renewables Fund being fully drawn, the Fund will have 74.5% of its assets pooled.
- 12.4 The Committee's view is that, in principle, due to the potential costs of disinvestment the only assets held by the Fund which would not be suitable for pooling are its private equity investments. These investments are in a 'winding down' phase, with no further commitments being made to the asset class.
- 12.5 The governance structure of the London CIV has been designed to ensure that there are both formal and informal routes to engage with all the London boroughs as both shareholders and investors. The governance structure of the London CIV includes a Shareholder Committee which acts on behalf of the Shareholders as a consultative body. It comprises of 12 Committee Members made up of 8 Local Authority Committee Chairs (or Leaders of London Local Authorities), 4 Local Authority Treasurers and the Chair of the Board of London CIV. It also comprises of two Non-Executive Directors and as two further nominated observers, a Trade Union representative and a Local Authority Treasurer.. In addition, the London CIV hosts an AGM each year and a general meeting to approve the CIV's budget. The Fund attends these meetings with the Chair of the Pension Committee representing the Fund.
- 12.6 As an AIFM, London CIV must comply with the Alternative Investment Manager Directive ("AIFMD") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("FCA"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management.

13 Social, environmental and governance considerations

- 13.1 As considered earlier, the Council recognises that it has a paramount duty to seek to obtain the best possible return on the Fund's investments taking into account a properly considered level of risk. It also recognises that environmental, social and governance factors can influence long term investment performance and the ability to achieve long term sustainable returns. As a general principle it considers that the long-term financial performance of a company is likely to be enhanced if it follows good practice in its environmental, social and governance activities.
- 13.2 At the present time the Committee takes into account some non-financial factors when selecting, retaining, or realising its investments. However, the Committee understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.
- 13.3 More recently, the Committee has taken steps to reduce its carbon exposure, through transferring the Fund's passive global equity mandate to a passive low carbon global equity mandate. In addition, the investments into the London CIV Sustainable Equity Fund and the London CIV Renewable Infrastructure Fund are have been made in consideration of the Fund's environmental, social and governance approach. The Committee are considering the most appropriate approach to monitor the Fund's carbon exposure and other climate-risk related considerations.
- 13.4 All the Fund's investments are managed by external fund managers in pooled funds, one of which is passively managed, and the Council recognises the constraints inherent in this policy. Nevertheless it expects its managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of companies in which they invest. Further, 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 companies in which they invest and markets to which the Fund is exposed.
- 13.5 The Fund expects its investment managers (and especially the London CIV through which the Fund will increasingly invest) 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. Effective monitoring can inform engagement with boards and management of investee companies to seek the 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 managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

- 13.6 The Council expects its managers to have signed up to “The UK Stewardship Code” and to report regularly on their compliance with the Code and other relevant environmental, social and governance principles.
- 13.7 Each of the Fund’s investment managers will be asked annually:
- Whether they had signed up to UN Principles for Responsible Investment (PRI)
 - Whether they had signed up to “The UK Stewardship Code”
 - To provide reports on their engagement and voting actions

The responses to these queries will be made available on the Fund’s website

- 13.8 In addition the Committee meets most of its managers at least once a year and they are always asked to discuss the activities they undertake in respect of socially responsible investment and how they consider long term environmental, social and governance risks in making specific investment decisions.
- 13.9 The Fund is a member of the Local Authority Pension Fund Forum, which engages with many companies on a wide range of environmental, social and governance issues.
- 13.10 The Fund does not hold any assets which it deems to be social investments.
- 13.11 The Fund has developed a Responsible Investment Policy which sets out in greater detail its approach on ESG issues.

14 Exercise of the rights (including voting rights) attaching to investments

- 14.1 The Fund recognises the importance of its role as a steward of capital and of the need to seek to ensure the highest standards of governance and corporate responsibility in the underlying companies in which its investments reside.
- 14.2 The Council sees itself as an active shareholder and seeks to exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance. The Fund is a member of the Local Authority Pension Fund Forum and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners
- 14.3 In practice, the Fund’s equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers. The Council encourages its fund managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality with the objective of preserving and enhancing long term shareholder value.

- 14.4 Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so.
- 14.5 The fund managers provide reports on their voting and engagement activities.
- 14.6 Any investments the Fund makes through the London CIV will be covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the Local Authority Pension Fund Forum directions.

15 Stewardship

- 15.1 Whilst the Committee expects its investment managers to have signed up to The Institutional Shareholders Committee Code on the Responsibilities of Institutional Investors ("The UK Stewardship Code") it has not yet done so itself. It will be considering whether to do so.
- 15.2 The Committee also expects the London CIV and all managers which it appoints to sign up to the Code.
- 15.3 The Fund also believes in collective engagement and is a member of the Local Authority Pension Fund Forum which exercises a voice on behalf of over 70 local authority pension funds across a range of corporate governance issues.
- 15.4 Additionally the Fund is a member of the Pensions and Lifetime Savings Association through which it joins with other investors to maximize the influence of investors as asset owners.