

## Investment Strategy Statement (effective 1 April 2017)

### 1 Introduction

1.1 The elected members of Croydon Council, acting through the Pension Committee, have drawn up this Investment Strategy Statement (ISS) as required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2006, brought into force on 1<sup>st</sup> November 2006.

1.2 As set out in the Regulations, the Committee will review the ISS from time to time and at least every three years. In the event of any material change to any matter contained within the ISS, changes will be reflected within six months of the change occurring.

1.3 The Regulations require all Administering Authorities take 'proper advice' when formulating investment strategy. The Council has consulted suitably qualified persons and has obtained advice from its investment consultant, AON Hewitt.

### 2 Investment Objectives

2.1 The Fund's goal is to ensure there are sufficient assets to meet all liabilities as they fall due. In order to achieve this goal the Pensions Committee has adopted the following objectives:

- Achieve a return on investments which at least meets the assumed return (discount rate) used by the Actuary when setting the triennial valuation.
- Keep risk within acceptable levels.
- Maintain liquidity requirements to pay liabilities when they fall due.
- Enable employer contribution rates to stay stable and affordable.
- Promote an Environmental Social and Governance Investment Strategy.

### 3 Asset Allocation

3.1 In order to meet the Investment Objectives the Pensions Committee, in consultation with its Investment Adviser has determined a suitable asset mix. The Pension Committee's interpretation of a suitable asset mix, is one which includes a variety of assets which are well understood, are less than perfectly correlated and which together are expected to meet the long term return objectives of the Fund. An asset mix which meets this criteria will be well diversified and improve the overall risk and return profile of the Fund increasing the likelihood of meeting the Investment Objectives.

3.2 The Pensions Committee has identified four broad asset classes with the alternatives being split into four further classes. Desired targets and ranges have been assigned to each asset class. The holding in an asset class must not breach the upper end of the range.

**Table 1 Asset Allocation**

<b>Assets</b>	<b>Target</b>	<b>Range (%)</b>
<b>Global Equities</b>	<b>42</b>	<b>35-60</b>
<b>Global Bonds</b>	<b>23</b>	<b>10-30</b>
<b>Alternatives:</b>	<b>34</b>	<b>20-55</b>
<i>Traditional Property</i>	<i>10</i>	<i>5-15</i>
<i>Private Rental Sector Property</i>	<i>6</i>	<i>0-10</i>
<i>Private Equity</i>	<i>8</i>	<i>5-15</i>
<i>Infrastructure</i>	<i>10</i>	<i>5-15</i>
<b>Cash</b>	<b>1</b>	<b>0-10</b>
<b>Total Fund</b>	<b>100</b>	

Each asset class has its own specific investment objective and within each asset class there are further diversification controls.

### **Global Equities**

3.3 The Pensions Committee has selected a passive global equity mandate managed solely by Legal and General Investment Management. The objective of the mandate is to track the FTSE4Good Index. The FTSE4Good Index consists of companies which demonstrate strong Environmental, Social and Governance (ESG) credentials. The Pensions Committee believe that investing in this mandate means the Fund is promoting good ESG practises and will assist the Fund in meeting its long term funding requirement.

### **Global Bonds**

3.4 The Pensions Committee has appointed Standard Life and Wellington to manage its Global Bond allocation. Investments with Standard Life are in the Corporate Bond fund measuring performance against the Merrill Lynch non-gilt sterling all stocks index and the Absolute Return fund measuring performance against 3 month LIBOR. Performance of the Wellington bond fund is measured against the Merrill Lynch Sterling Broad Market Index.

### **Traditional Property**

3.5 The Pensions Committee has appointed Schroders to manage its traditional property portfolio, investing mainly in UK commercial real estate, with an objective to outperform the Investment Property Databank (IPD) All Properties Index.

### **Private Rental Sector Property**

3.6 The Pensions Committee has appointed M&G to manage its Private Rental Sector property portfolio, with an objective to outperform the Investment Property Databank (IPD) All Properties Index.

### **Private Equity**

3.7 A number of Private Equity managers have been selected enabling the Fund to benefit from increased diversification through investments in a variety of

companies in different markets. The objective of this part of the portfolio is to generate returns in excess of the Consumer Prices Index (CPI) plus 5%.

### **Infrastructure**

3.8 A number of Infrastructure managers have been selected in order to gain cost effective, diversified exposure to global infrastructure assets. The investments seek to generate satisfactory risk adjusted return and provide a hedge against inflation. Some of the investments aim to be more growth seeking and some aim to be income generating. The overall return objective for this part of the portfolio is to generate returns in excess of the Consumer Prices Index (CPI) plus 5%.

### **Cash**

3.9 The objective is to maintain capital and hold enough cash to meet ongoing benefit payments.

## **4 Risk Management**

4.1 There are various risks to which any pension fund is exposed. The Pension Committee has considered a number of risks such as:

- The risk arising through a mismatch between the Fund's assets and its liabilities.
- The risk of deterioration in the Fund's ongoing funding level.
- The risk that the day-to-day management of the assets will not achieve the rate of investment return required to meet accrued and future liabilities as quantified by the Fund's Actuary.
- The risk of insufficient liquidity from the Fund's assets.

4.2 In order to mitigate the risks identified the Pensions Committee formulated the asset allocation having taken proper advise from its investment adviser, Aon Hewitt. Various scenarios were tested and the probability of achieving full funding over a specified period of time was calculated in order to identify an

asset mix which should fulfil the objectives. The main way to mitigate risk of the investment portfolio not achieving its objectives is through diversification of assets. This should provide protection in periods of market turmoil as some assets will preserve capital better than others and in rising markets some assets will perform better than others.

4.3 The Pensions Committee constantly monitors the performance of managers to ensure the Fund's objectives are met.

### **5 Pooling of Assets**

5.1 The Fund has formally agreed to join the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

5.2 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

5.3 The Fund holds illiquid assets outside of the London CIV pool. 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. The Fund will continue to invest in illiquid assets outside of the London CIV pool, until suitable strategies are made available by the London CIV pool, in order to meet its asset allocation target.

### **6 Environmental, Social and Corporate Governance (ESG)**

6.1 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

## APPENDIX A

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 and this will include training and information sessions on matters of social, environmental and corporate governance.

6.2 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.

6.3 The Fund expects its external investment managers (and specifically 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 such as corporate governance and environmental factors. Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

6.4 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.

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

6.6 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.

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

### **7 Voting**

7.1 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.

7.2 The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to vote in accordance with the Fund's voting policy.

7.3 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website.

## APPENDIX A

7.4 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

7.5 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

7.6 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

7.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

7.8 In addition the Fund:

- Is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners;
- is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners;
- joins wider lobbying activities where appropriate opportunities arise.