

# **London Borough of Croydon Pension Fund**

## **Investment Strategy Statement (effective 19 September 2023)**

The Investment Strategy Statement was updated as agreed at the Pension Committee 19 September 2023

### **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 2016, brought into force on 1st November 2016. This statement is compliant with the government guidance issued on 15<sup>th</sup> September 2016 and 12<sup>th</sup> July 2017.
- 1.2 As set out in these 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, Mercer and consulted Hymans Robertson, the Scheme Actuary.
- 1.4 Croydon Council's investment principles for investing Fund monies have been designed in accordance with and comply with the statutory guidance for Investment Decision Making and Disclosures in the Local Government Pension Scheme Application of Myners Principles.

### **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 Pension Committee has adopted the following objectives:
  - Achieve a return on investments which at least meets the assumed return (the 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.

2.2 The investment objectives align with the Funding Strategy Statement. This statement sets out the four key measures that the Actuary has developed which capture the essence of the Fund’s strategies, both the funding and this investment strategy. These include how much each employer can afford; and the question of stability, that is to say employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment. These objectives are often in conflict. In setting the Funding Strategy the Council has adopted a stabilisation approach that meets the need for stability of contributions without jeopardising the aim of prudent stewardship of the Fund.

### 3 Asset Allocation

3.1 In order to meet the Investment Objectives the Pension 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 these criteria will be well diversified and improve the overall risk and return profile of the Fund increasing the likelihood of meeting the Investment Objectives. A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

3.2 The Pension Committee has identified four broad asset groups with the alternatives being split into four further classes. Cash is held as working capital and invested in Money Market Funds for short periods but is not considered as an investment asset, although fund managers may hold cash as part of their investment strategy. Desired targets and ranges have been assigned to each asset class. The holding in an asset class ought not to breach the upper end of the range. Table 1, below, sets out the maximum percentage of the total value of all investments of fund money that will be invested in each investment or class of investment. This replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (“the 2009 Regulations”).

**Table 1 Asset Allocation**

<b>Asset Class</b>	<b>Target (%)</b>	<b>Operational Range</b>	<b>Regulation Maximums (%)</b>
<b>Global Equities</b>	<b>42</b>	<b>37-47</b>	<b>60</b>
<b>Fixed Interest</b>	<b>23</b>	<b>15-28</b>	<b>28</b>
<b>Alternatives:</b>	<b>34</b>	<b>29-39</b>	<b>40</b>
<i>Property (Core and Private Rental Sector)</i>	12	7-17	17
<i>Private Equity</i>	10	5-15	15
<i>Infrastructure</i>	12	7-17	17

<b>Cash</b>	<b>1</b>	<b>0-10</b>	<b>Not Applicable</b>
<b>Total Fund</b>	<b>100</b>		

Note that the Regulations require that this investment strategy must set out the maximum percentage of the total value of all investments of fund money that will be invested in particular investments or classes of investment. The Target Allocations set out above are aspirational and for guidance only because of the inevitable fluctuations caused by market volatility. The operational range reflects experience and current forecasts.

3.3 As a general principle Croydon Council will actively seek to identify how the Pension Scheme could contribute to and invest in the Borough.

### **Global Equities**

3.4 The Pension Committee has selected a passive global equity mandate managed by Legal and General Investment Management (LGIM) and an active mandate managed by RBC Global Asset Management (UK) Limited via the London CIV.

The objective of the mandate managed by LGIM is to match the FTSE World Developed (Ex Tobacco) Index Fund. It is 50% hedged back to GBP. The reason for investing in this mandate is because it achieves equity exposure, is well diversified, has a low management fee and is considered as fulfilling the criteria for the requirement to pool assets.

The mandate managed by RBC excludes investments in adult entertainment, alcohol, fossil fuels, gambling, tobacco and weapons manufacturing. The mandate's objective is to achieve capital growth by outperforming the MSCI World Index Net (Total Return) by 2% per annum net of fees annualised over rolling three year period. The Fund is highly concentrated investing in 25-45 stocks, so forms about 5% of the Fund's 42% target allocation to equities.

All the Fund's equity holdings are now considered part of the London CIV for pooling purposes (see section below for more details of the Fund's strategy on asset pooling).

### **Fixed Interest**

3.5 The Pension Committee has appointed Aberdeen Standard Life, Wellington and PIMCO via the London CIV to manage its Fixed Interest allocation.

Investments with Aberdeen Standard Life are in the Corporate Bond fund measuring performance against the Markit iBoxx Sterling Non-Gilts Index.

Performance of the Wellington bond fund is measured against the Merrill Lynch Sterling Broad Market Index.

Performance of the LCIV Global Bond Fund managed by PIMCO is measured against the Bloomberg Global Aggregate Credit Index – GBP Hedged.

The Fund is in the process of selecting a Multi Asset Credit manager to manage the new strategic exposure that was agreed as part of the 2023 investment strategic review.

## **Property**

3.6 The Pension Committee has appointed Schroders to manage its core property portfolio, investing mainly in UK commercial real estate, with an objective to outperform the MSCI All Balanced Property Funds Index.

3.7 The Pension Committee has appointed M&G to manage its Private Rental Sector property portfolio, with an objective to achieve a return of 6-8%.

## **Private Equity**

3.8 Four Private Equity managers have been selected enabling the Fund to benefit from increased diversification through investments in a variety of companies in different markets. These managers are: Pantheon, providing access to funds of funds in Europe, US and Asia; Knightsbridge, investing in Venture Capital predominantly in the US; Access Capital Partners, a European coinvestment fund; and North Sea Capital, providing exposure to markets in northern Europe and Scandinavia. The objective of this part of the portfolio is to generate returns in excess of the Consumer Prices Index (CPI) plus 5%.

## **Infrastructure**

3.9 This asset class is represented by four asset managers that have been selected in order to gain cost effective, diversified exposure to global infrastructure assets. These managers comprise: Equitix that focus on UK PFI / PPP / PF2 contracts; Temporis and the Green Investment Group that allow the Fund to access different types of renewables; and I Squared Capital, that provides opportunities across global infrastructure funds and projects. 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**

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

## Assets' Features

3.11 Each of these asset classes possess features that, in combination, address the strategic goals for the Croydon Scheme. The authority's assessment of the suitability of particular investments and types of investments can be summarised thus:

Equities	Over the long-run will deliver sufficient growth to address funding gap. Allows investment in wide range of sectors and geographic regions. Should beat inflation in the long run.
Fixed Interest	Matches liabilities of the Fund. Demonstrates, in normal scenarios, negative correlation to equities. Multi Asset Credit portfolio should provide income and growth across a broad opportunity set primarily focussed on sub-investment grade credit, with low sensitivity to interest rates. Government and blue chip corporate debt is relatively low risk and provides protection against falling interest rates.
Property	Does not correlate to equity or fixed interest. Provides steady cash flows. Provides some protection against inflation. Private Rented Sector offers diversification from traditional property.
Private Equity	Similar benefits to equity but at different points on the cycle. Regional diversification. Access to otherwise closed markets.
Infrastructure	Diversification. Good spread of regions. Elements of regulated income. Mixture of growth and income generating assets. Income generating assets have an inflation link.

## 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 that volatility resulting from various geopolitical factors will have an adverse effect on the long-term viability of the Fund. This risk is increased by having a majority of the Fund under passive management.
- Exchange rate risk arises from investing in unhedged overseas assets with all liabilities due to be paid in sterling. As a long-term investor such volatility can be tolerated. The extent to which the Fund is diversified across asset classes, geography and approach to investments works to mitigate this risk.
- The risk of insufficient liquidity from the Fund's assets.

4.2 In order to mitigate the risks identified the Pension Committee formulated the asset allocation having taken proper advice from its investment adviser. 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 Risks specifically relating to the Pension Fund are included in a risk register that is regularly reviewed by both the Pension Committee (which considers the most significant risks) and the Croydon Pension Board (which looks at all the risks). The most immediate and significant risks are also included in the corporate risk register. Steps to mitigate risks in the short and longer term are included in the register.

4.4 The Pension Fund's appetite for risk, in so far as generating returns is concerned, should be only that much as is sufficient to meet the return target set by the Funding Strategy Statement. Other risks should be mitigated as far as possible.

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

## **5 Pooling of Assets**

5.1 The Fund participates in the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. Croydon is a shareholder, contributes regulatory capital and a subscription fee. The London CIV was launched in December 2015. It has launched a number of sub-funds comprising: UK, Global and Emerging Market equities, Multi-Asset and Fixed Interest Funds.

5.2 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform. At present there are options for participating in

pooling: including transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds available to meet the Fund's investment strategy requirements; investing in sub-funds that meet the requirements of the Fund's investment strategy; and investing in assets that have been deemed part of the pooling strategy but which are assets that are not suitable for pooling in an ACS structure.

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.

5.4 Therefore, the proportion of assets that will be invested through the pool will be circa 65%, depending on valuations. At year-end 2022/23 50% of the Pension Fund should be considered pooled. The Fund also formally agreed to transfer a further c.4% of assets to the pool.

5.5 In establishing the framework for asset pooling the government recognised that investing in illiquid assets like infrastructure, direct holdings in property and locally targeted investments might more appropriately sit outside the pooling arrangements. The alternative asset classes listed above, property, private equity and infrastructure, are included in this group.

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

6.1 The Fund has developed a detailed Responsible Investment ('RI') Policy which can be found on the Fund's website. A summary of the key points are below.

6.2 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 Pension Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

6.3 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.

6.4 The Fund will only invest in investments with a strong environmental, social and governance policy that includes no investments in tobacco manufacturers over time. It is recognised that the application of the restrictions may be limited in certain

circumstances, for example investments in “pooled assets”. These types of funds are held collectively with other investors, normally in order to reduce costs or ensure a wider range of opportunities. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these same environmental, social and governance policy issues. Examples of this approach include investing in renewable energy projects, screening out regional markets where there might be issues with modern slavery, and looking to explore opportunities to contribute to and invest in the Borough.

6.5 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. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

6.6 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.

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

6.8 The Fund believes that climate change presents financial risks to the Fund over the short, medium and long-term and that the Fund should better understand and mitigate where possible.

6.9 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.

6.10 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 manager, currently LGIM, 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.

7.4 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven 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 other investors to magnify its voice and maximise the influence of investors as asset owners;
- Joins wider lobbying activities where appropriate opportunities arise.

**Appendix 1 Statement of Compliance with the Myners Principles**

	Description of Principle	The Fund's position	Future actions
1	<p><b>Effective Decision Making</b></p> <p>Administering Authorities should ensure that</p> <p>Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation</p> <p>and</p> <p>Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.</p>	<p>The Committee is responsible for the approval and review of the investment strategy of the Fund</p> <p>The day to day running of the Fund has been delegated to the section 151 officer, the Corporate Director of Resources, supported by other Fund officers.</p> <p>Appointments to the Committee reflect skills, experience and continuity. An ongoing programme of training is in place for members of the Committee.</p> <p>Fund officers hold relevant qualifications and maintain appropriate professional development (CPD).</p> <p>The Fund procures training from CIPFA and other relevant bodies. Members and Officers also attend training courses run by investment managers and the Fund's actuary.</p> <p>The structure and composition of the Committee is agreed at the time of the elections to the Council. Allowances paid to elected members are published.</p>	<p>Ongoing member and Fund officer training.</p>

<p><b>2</b></p>	<p><b>Clear Objectives</b></p> <p>An overall investment objective(s) should be set out for the Fund that takes account of the Fund's liabilities, the potential impact on local taxpayers, 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.</p>	<p>The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) set out the Fund's primary funding objectives and investment strategies.</p> <p>The Fund recognises the impact of employer contribution rates on Council Tax and the desirability of rates that are as stable as possible.</p> <p>The Fund manages employers' liabilities effectively taking account of the strength of their covenant.</p> <p>Specific investment objectives are in place for each mandate in the portfolio and these are regularly monitored by the Committee. These objectives take account of the risk and return of different asset classes.</p> <p>Investment advice to the Committee and Fund officers is commissioned from Mercer.</p>	<p>Continual monitoring, review and communication of objectives.</p>
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<p><b>3</b></p>	<p><b>Risks and Liabilities</b></p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>The Funding Strategy Statement is reviewed at each triennial actuarial valuation taking account of the recommendations of the Fund Actuary in relation to the liabilities of the Fund.</p> <p>The Fund agrees employer contribution rates that take account of the ability of employers to pay and the strength of covenant of participating employers.</p> <p>The admission of new employers to the Fund is not granted unless appropriate guarantees are put in place.</p> <p>The Investment Strategy Statement will be reviewed at least annually. It takes into account the Fund's attitude to investment risk. It also includes the Fund risk register which covers all the Fund's investment activities.</p> <p>Whilst it is accepted that investment underperformance due to certain market conditions can occur, the Committee measures the Fund's active managers against longer term benchmark outperformance targets.</p> <p>The Committee uses internal and external audit reports to assess the effectiveness of governance arrangements.</p>	
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<p><b>4</b></p>	<p><b>Performance Assessment</b></p> <p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>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.</p>	<p>The Committee reviews the performance of its investment managers at its regular meetings and all the fund managers are held to account either through attendance at meetings with the Committee and / or with the Fund's officers and advisors.</p> <p>Performance data is provided by a specialist provider, independent of the fund managers.</p> <p>The Fund's contract with its actuary is market tested when appropriate.</p> <p>Committee member attendance at meetings and training undertaken is monitored.</p>	
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<p><b>5</b></p>	<p><b>Responsible Ownership</b></p> <p>Administering authorities should</p> <p>Adopt, or ensure their investment managers adopt, the institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.</p> <p>Include a statement of their policy on responsible ownership in the statement of investment principles.</p> <p>Report periodically to scheme members on the discharge of such responsibilities.</p>	<p>The Institutional Shareholders' Committee Statement of Principles has been superseded by the Financial Reporting Council's (FRC) UK Stewardship Code and it is now the standard for the investment management industry.</p> <p>The Fund's Responsible Investment Policy describes its policy on responsible ownership and the expectation that its investment managers will adhere to the UK Stewardship Code.</p> <p>Quarterly reports received from investment managers and circulated to Committee members include details of voting records.</p> <p>The Fund's annual report also includes a summary of the managers' voting activity.</p>	
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<p><b>6</b></p>	<p><b>Transparency and Reporting</b></p> <p>Administering authorities should</p> <p>Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.</p> <p>Provide regular communication to scheme members in the form they consider most appropriate.</p>	<p>Agenda papers for all Committee and Pension Board meetings are available at <a href="http://www.democracy.croydon.gov.uk">www.democracy.croydon.gov.uk</a></p> <p>The Fund's website at <a href="http://www.croydonpensionscheme.org">www.croydonpensionscheme.org</a> includes the</p> <ul style="list-style-type: none"> <li>• Funding Strategy Statement</li> <li>• Investment Strategy Statement</li> <li>• Governance Compliance Statement</li> <li>• Communications Policy</li> </ul> <p>Individual scheme members receive newsletter updates throughout the year in addition to annual benefit statements.</p>	
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