Public Document Pack

PENSIONS COMMITTEE AGENDA

7.00 pm	Tuesday 12 September 2023	Council Chamber - Town Hall

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)	Havering Residents' Group (2)	Labour Group (1)
Dilip Patel	Philip Ruck (Vice-Chair)	Mandy Anderson (Chairman)
Viddy Persaud	James Glass	
Joshua Chapman	Vacancy	

Trade Union Observers
Derek Scott
Andy Hampshire

(No Voting Rights) (2)

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

For information about the meeting please contact:
Luke Phimister 01708 434619
luke.phimister@onesource.co.uk

Under the Committee Procedure Rules within the Council's Constitution the Chairman of the meeting may exercise the powers conferred upon the Mayor in relation to the conduct of full Council meetings. As such, should any member of the public interrupt proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room and may adjourn the meeting while this takes place.

Excessive noise and talking should also be kept to a minimum whilst the meeting is in progress in order that the scheduled business may proceed as planned.

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

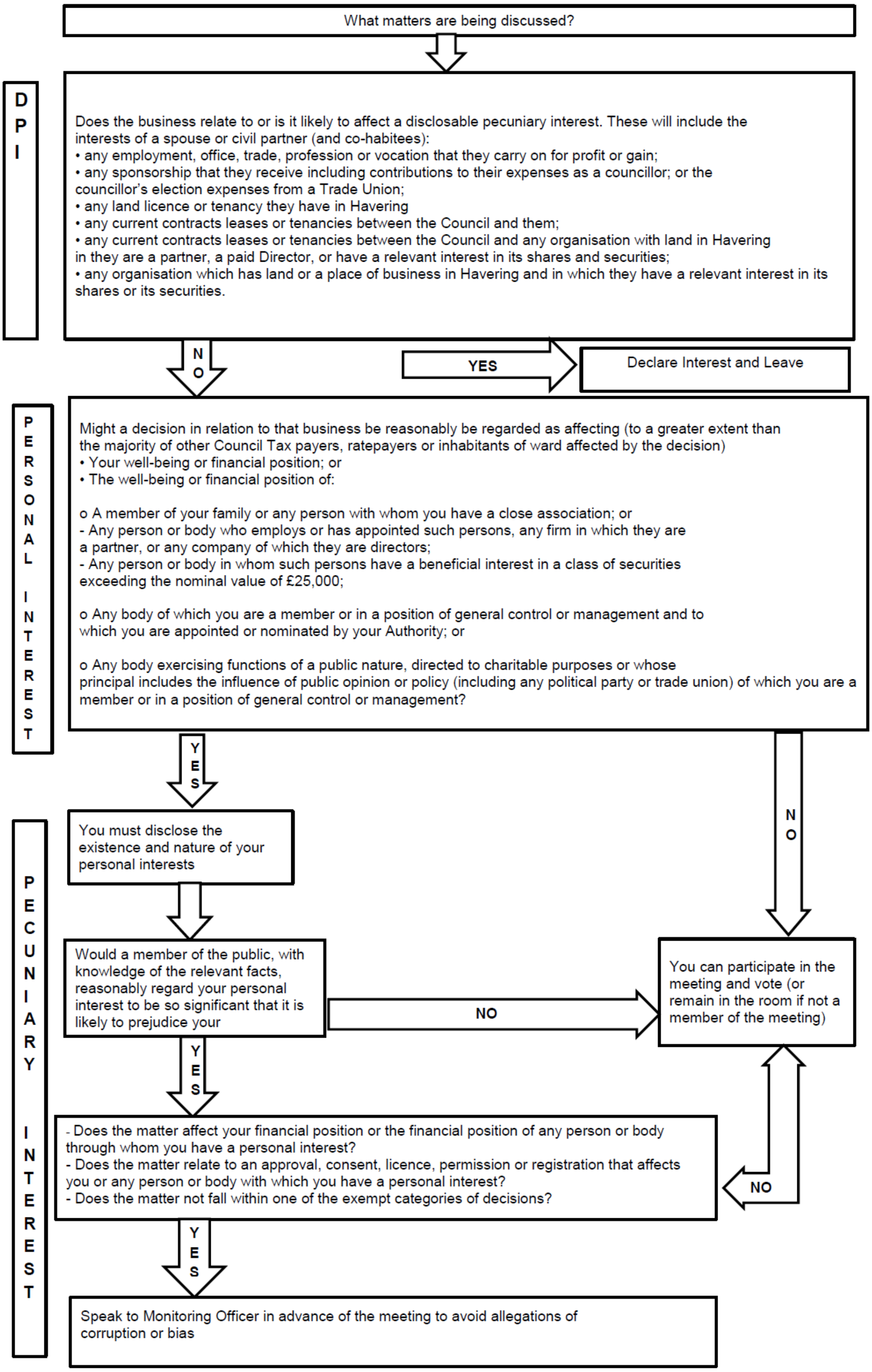
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF INTERESTS

Members are invited to disclose any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING

To follow

5 MINUTES OF THE LOCAL PENSION BOARD

To follow

6 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from relevant parts of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

7 PENSION FUND PERFORMANCE MONITORING FOR QUARTER ENDED JUNE 2023 (Pages 1 - 54)

Report and appendices attached

8 REVIEW OF INVESTMENT STRATEGY STATEMENT (Pages 55 - 88)

Report and appendices attached

9 INVESTMENT STRATEGY UPDATE - LCIV GLOBAL BOND FUND (Pages 89 - 102)

Report and exempt appendix attached

10 TASKFORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES (Pages 103 - 112)

Report and appendix attached

Zena Smith
Head of Committee and Election Services

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 12 September 2023

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2023**
CLT Lead:	**Kathy Freeman**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Pension Fund performance ("the Fund") is regularly monitored to ensure investment objectives are being met and to keep the committee updated with Pension issues and developments.
Financial summary:	This report comments upon the performance of the Fund for the period ended 30 June 2023

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report provides an overview of how the Fund's investments are performing, how the individual Investment Managers are also performing against their set targets and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending **30 June 2023**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund increased in value by **£10.9m** over the quarter, it underperformed the tactical benchmark by -1.66% and outperformed the strategic benchmark by 5.94%.

Equity and credit assets performed well over this period. Rising gilt yields over this period have had a two-fold effect: those funds that had positioned themselves defensively by holding bonds did less well but Fund liabilities are expected to have fallen in value as shown by outperformance on the strategic benchmark. Property values have stabilised except the office sector which have continued to decline.

The general position of the Fund is considered plus other matters including any current issues as advised by Hymans. The manager attending the meeting will be:

Churchill – Private Equity Manager

Hymans will discuss the Fund's performance after which the manager will be invited to join the meeting, make their presentation and answer any questions.

Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

RECOMMENDATIONS

That the Committee:

1) Consider Hymans Market Background, Strategic Overview and Manager Performance Report (Appendix A)
2) Consider Hymans Performance Report and views (Appendix B **Exempt)**
3) Receive presentation from the Churchill for an overview on the fund's performance (Appendix C – **Exempt**)
4) Consider the quarterly reports sent electronically, provided by each fund manager.
5) Note the analysis of the cash balances.

REPORT DETAIL

1. Elements from Hymans report, which are deemed non-confidential, can be found in **Appendix A.** Opinions on fund manager performance will remain as exempt and shown in **Appendix B.**

2. Where appropriate topical LGPS news that may affect the Fund will be included.

3. We welcome feedback and suggestions that will help members gain a better understanding of the reports. Hymans report at Appendix A now includes a one-page summary highlighting key performance takeaways over the quarter.

4. BACKGROUND

a. The Committee adopted an updated Investment Strategy Statement (ISS) in July 2020.

b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities.

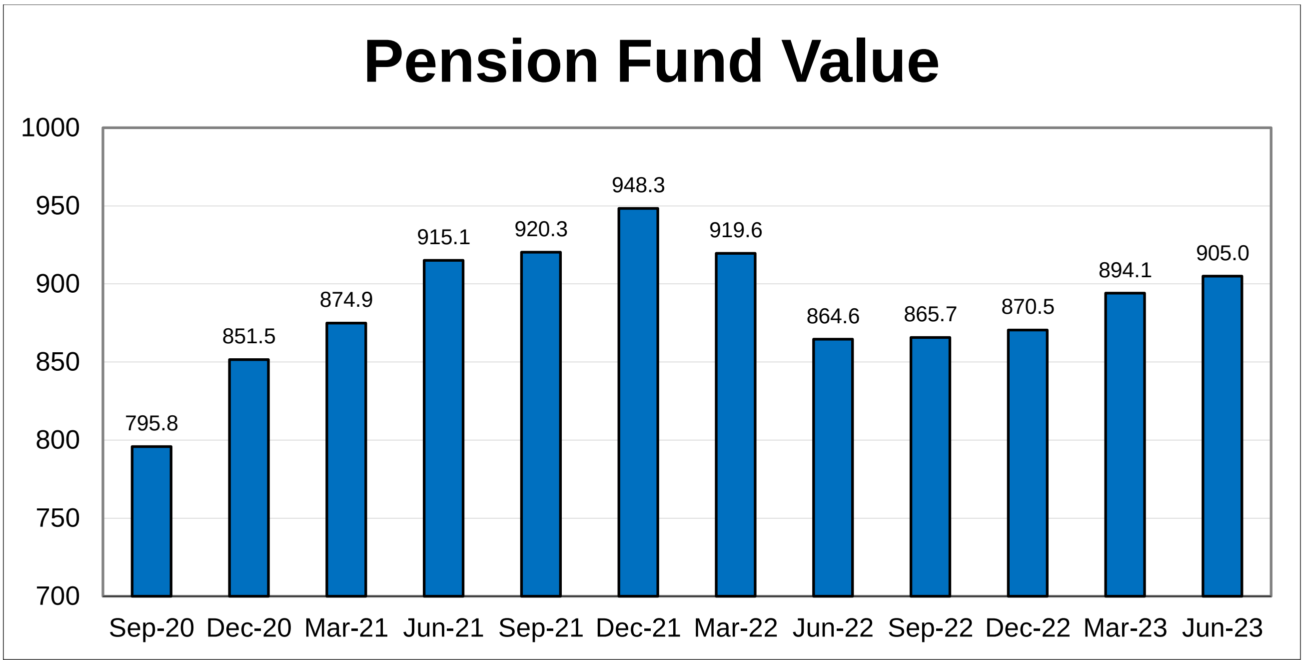
c. The Fund's assets are monitored quarterly to ensure that the long-term objective of the ISS is being delivered.

d. We measure returns against tactical and strategic benchmarks:

5. PERFORMANCE

a. As reported by the Fund's custodian Northern Trust, the total Fund asset value at 30 June 2023 was **£904.98m** compared with £894.08m at 31 March 2023; an **increase of £10.9m**. This movement is largely attributable to an increase in cash balances of £7.5m.

Chart 1 – Pension Fund Asset Value



Source: Northern Trust Performance Report

b. The overall net performance of the Fund against the **Tactical Benchmark** - Each asset manager has been set a specific (tactical) benchmark as well as an outperformance target against which performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

Table 1: Tactical Performance

	Quarter to 30/06/2023	12 Months to 30/06/2023	3 Years to 30/06/2023	5 years to 30/06/2023
	%	%	%	%
Fund	0.22	2.68	4.27	4.73
Benchmark	1.88	6.31	6.25	5.97
*Difference in return	-1.66	-3.64	-1.98	-1.23

Source: Northern Trust Performance Report
Totals may not sum due to geometric basis of calculation and rounding

c. The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees). The strategic benchmark represents the expected rate at which the Fund's liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives an indication of whether the funding level has improved or weakened over a given period

Table 2: Strategic Performance

	Quarter to 30/06/2023	12 Months to 30/06/2023	3 Years to 30/06/2023	5 years to 30/06/2023
	%	%	%	%
Fund	0.22	2.68	4.27	4.73
Benchmark	-5.72	-14.39	-10.59	-2.36
*Difference in return	5.94	17.07	14.86	7.09

Source: Northern Trust Performance Report
*Totals may not sum due to geometric basis of calculation and rounding.

d. Further detail on the Fund's investment performance is detailed in **Appendix A** in the performance report which will be covered by the Investment Adviser (Hymans)

6. CASH FORECAST

a. At the end of June, the cash balance was £23.7m. This cash is invested with LBH and can be called upon for any operational cash needs.

Table 3: Cash Flow Forecast

	Cash Position 30 June 2023 ACTUALS TO DATE £000	2023/24 £000	2024/25 £000	2025/26 £000
Balance b/f	16,201	16,201	28,813	34,027
Benefits paid	(8,536)	(34,337)	(35,711)	(37,139)
BACS expenses	(1,337)	(2,837)	(3,007)	(3,188)
Transfers in	2,245	3,145	3,302	3,467
Contributions received	8,333	39,833	40,630	41,442
Sweep to LBH	6,808	6,808		
Balance c/f	23,714	28,813	34,027	38,609

b. The cash management policy permits income from investments to be drawn down as required and allows for any excess cash above £8m to be reinvested as required

7. REPORTING ARRANGEMENTS

a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand a manager be brought back again for further investigation.

b. Fund Manager Reviews are included within Hymans performance report at **Appendix A.**

c. The full version of all the fund manager's quarterly reports are distributed electronically prior to this meeting. Where applicable, quarterly voting information, from each fund manager, detailing the voting history of the fund managers is also included in the manager's quarterly report.

d. The fund manager attending this meeting is **Churchill** who are one of the Fund's **Private Equity Managers,** their report is attached at **Appendix C (Exempt).**

8. FUND UPDATES:

8.1 Changes since the last report and forthcoming changes/events:

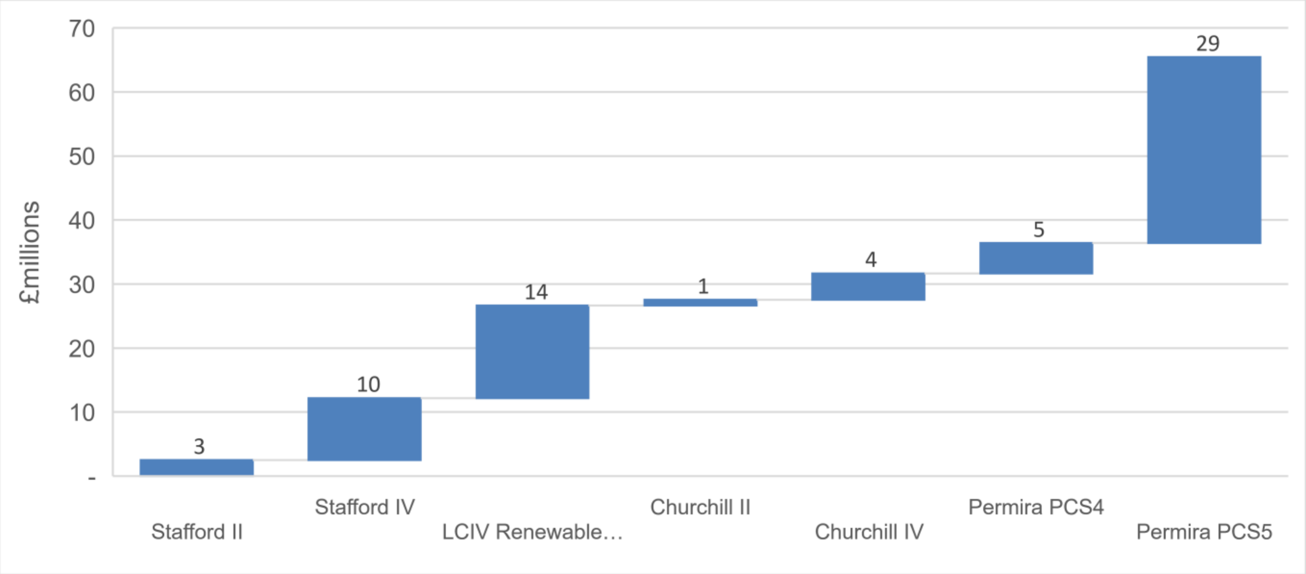
a. Since the last report, the Fund has continued to fund capital draw down requests, within the total fund commitments approved by this committee:

- £0.5m London Collective Investment Vehicle (LCIV) Renewables Fund

b. These Capital Calls were funded with cash received from investment income which is held with the Custodian

c. At 31 July 2023 there was £65.4m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 31 July 2023



8.2 The LCIV is the appointed asset pool manager for the Fund and the governance of our investments held with the LCIV is now their responsibility. It is therefore crucial that regular communication and contact is upheld and activity updates are reported and covered here as follows:

8.2.1 LCIV meetings (since the last report)

a. General Shareholder meeting – 18 July 2023 attended by Councillor Anderson. Notes and the presentation pack have been distributed to the Committee.

b. The LCIV Annual Strategy & Responsible Investment Conference is held on the 4 & 5 September. Councillor Anderson, Councillor Glass and Derek Scott will be attending.

c. Business Update Meetings (currently held virtually) – take place monthly.

d. Each business update meeting includes an update from LCIV Chief Officers covering current fund offerings, fund performance; fund updates (including those funds for which enhanced monitoring is in place) and the pipeline for new fund launches. In addition, relevant topical issues are included as appropriate. Highlights as follows:

- **Fund Monitoring Updates**: LCIV Diversified Growth Fund has been put on enhanced monitoring with a review due in June 2023 and results expected July (not received at time of publication.

- **Annual Performance Reviews:** In depth reviews continue to take place; the LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund with no concerns to note and monitoring status to remain normal. LCIV Global Alpha Growth Paris Aligned Fund is currently pending.

- **Fund Activity - New/Changes to Sub Fund Launches:**
  - *New:* UK Housing Fund (Property) – Second manager agreed subject to due diligence – expected completion Q3 2023 (December).
  - *New:* Global Equity Value – Stage 1 (Initiation) Seed Investor Group (SIG) in progress to define the mandate and client demand. Havering has no plans to invest in this fund
  - *New:* Buy and maintain Fund (formerly known as Sterling Credit) – SIG in progress. Havering has no plans to invest in this fund.
  - *New:* Natural Capital/ Nature Based Solution – currently under discussion and research. No details available to date.
  - *Change:* LCIV Absolute Return Fund, moving to a fund of one to deliver fee savings. No operational impact for Havering under this arrangement – expected Q3 2023 (December).

- **Other Fund and Corporate Matters:**
  - Cost Transparency Working Group (CTWG) update – reviewed Assessment of Value (AOV) for December 2022 and currently reviewing fee saving methodology, and funding model.

- **Staff updates** - The Chief Investment Officer (CIO) has resigned and will leave at the end of October. Martin Gloyne joined the team as the Chief Operating Officer in July. CIO recruitment has started and the Chief Executive Officer will put in place arrangements to cover the role pending commencement of the new CIO.

8.3 LGPS GENERAL UPDATES:

8.3.1 LGPS Governance and reporting of climate change risk

a. The Department for Levelling Up, Housing & Communities (DLUHC) consultation on the LGPS: Governance and reporting of climate change risks closed in November 2022. This consultation follows the Taskforce for Climate-related Financial Disclosures (TCFD) framework setting out how to report against the four key areas of governance.

b. The consultation proposed that regulations will apply to all LGPS Administering Authorities with the first reporting year being for the financial year 2023/24. Originally the first report would be required by December 2024

c. Subsequently, Lee Rowley, the Local Government Minister, has written a letter to the Scheme Advisory Board dated 15 June 2023 stating that DLUHC will not impose any requirements on the governance or disclosure of climate-related financial risks in the LGPS for 2023/24.

d. The Havering Fund has already been producing a TCFD report voluntarily and the latest report appears on this agenda.

8.3.2 LGPS Next Steps on investment

a. DLUHC on the 11 July 2023 issued a consultation “LGPS: Next steps on investments “. Closing date is 2 October 2023.

b. Consultation seeks views on proposals relating to the investments of the LGPS, covering five areas, summary as follows:

    i. Area 1 – Asset Pooling – proposal to accelerate and expand pooling, with a deadline of 31 March 2025 to transition listed assets. Achieve greater scale by having smaller number of pools holding in excess of £50bn in directly invested assets. Also included is a requirement for administering authorities to have an investment related training policy for pension’s committee members and to report against the policy. Amend guidance on annual reports to provide greater clarity on progress of pooling.
    ii. Area 2 - levelling Up – proposal to require funds to set a plan to invest up to 5% of assets in levelling up in the UK and report progress in their annual reports. Further clarity on the definition of levelling up investments identifies 12 levelling up missions.
    iii. Area 3 – Investment in private equity – proposing an ambition to increase investment into high growth companies via unlisted equities with a target of 10%.
    iv. Area 4 – Investment Consultancy Services – To clarify that funds would be formally required to set objectives for their investment

consultants in line with the Competition and Markets Authority (CMA) order.

v. Area 5 – Definition of investment – amend investment regulations to correct an inconsistency in the definition of unquoted securities investment by adding the word partnership.

c. Officers will liaise with the Chair and S151 to produce a response and final version will be distributed to the committee for noting.

8.3.2 Training Requirements - UPDATE

a. The Fund has subscribed to the LGPS Online Learning Academy (LOLA) Launched by our Actuaries (Hymans) – this is an online platform designed to support the training needs of Pensions Committees, Local Pension Boards and Officers. The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework and The Pension Regulator's Code of Practice 14. Each module contains short 'video on demand' presentations of 20 minutes or less with supplemental learning materials and quizzes.

b. In addition to an induction training session, it is expected that members will complete the LOLA training modules over a six-month period or sooner in support of meeting the Committee procedure rules. The six months' deadline will apply once members joining instructions have been issued.

c. The Fund will receive regular progress reports allowing it to easily evidence member's development and progress as at July 2023 can be seen in the following table

Table 4: Module summary

LOLA Modules Summary						
Name	**Module 1 Introduction to the LGPS**	**Module 2 LGPS Governance & Oversight Bodies**	**Module 3 Administration & Fund Management**	**Module 4 Funding & Actuarial Matters**	**Module 5 Investments**	**Module 6 Current Issues**
Pensions Committee						
Cllr Anderson	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Chapman (1)	In Progress					
Cllr Glass	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Patel	Complete	Complete	Complete	Complete	Complete	
Cllr Persaud	Complete	Complete	Complete	Complete	Complete	In progress
Cllr Ruck	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Stanton	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Wilkes	Complete	Complete	Complete	Complete	Complete	Complete
Derek Scott	Complete	Complete	Complete	Complete	Complete	Complete

(1) Joined July 23 – replacing Cllr Benham

d. Given the nature of Module 6 and the expectation that it will be refreshed regularly with hot topics relating to the LGPS, Module 6 will always show as “In progress”. Module 6 is not part of the mandatory learning required under the CIPFA Knowledge and Skills Framework and therefore Hymans have removed the Module 6 Knowledge Check and reconfigured the learning plan so that certification is awarded after completion of Modules 1 - 5.

e. Some users may show as ‘completed’ on Module 6 but this would be dependent on when the user was onboarded to the platform as Hymans changed the “knowledge check” after some users had already been onboarded.

f. Hymans have added improvements to their LOLA platform – releasing v2.0. The key changes will see shortened and refreshed modules and will mirror and align the topics with their National Knowledge Assessment. Funds will also be able to add their own training documents and fund policies allowing users to have a one stop shop for key training material. Officers will be transition to v2 from the 1 October 2023.

IMPLICATIONS AND RISKS

Financial implications and risks:

Pension Fund Managers’ performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund and employers in the Fund

Legal implications and risks:

None arising directly from consideration of the content of the Report.

Human Resources implications and risks:

There are no immediate HR implications.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: ‘Protected characteristics’ are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqHIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

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London Borough of Havering Pension Fund

Q2 2023 Investment Monitoring Report

Simon Jones – Partner
Mark Tighe – Investment Consultant
Meera Devlia – Investment Analyst

HYMANS ROBERTSON

Headlines

- This section outlines the key points included in this report.
- The tactical benchmark in the Fund Performance table represents the aggregate performance target of the Fund's assets and is a measure of relative outperformance / underperformance from the asset managers.
- The strategic benchmark represents the expected rate at which the Fund's liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives an indication of whether the funding level has improved or weakened over a given period.

Key Takeaways

Equity and credit assets performed well.	• Global growth remained strong due to continued resilience in labour markets and consumer spending. • All developed equity mandates performed positively in absolute terms. • The LCIV Global Alpha Growth Paris Aligned Fund underperformed due to relative sector positioning, when technology stocks outperformed. • The LCIV Absolute Return Fund and LCV DGF performed negatively in both absolute and relative terms, as expected in a more 'risk on' environment.
Real gilt yields rose sharply.	• As core inflation rose and central banks continued to announce interest rate hikes, real gilt yields rose sharply – negatively impacting the valuation and performance of the IL gilt mandate • The value of the Fund's liabilities are also expected to have fallen in value due to the increase in gilt yields, as proxied by the return of the strategic benchmark
Overall fund performance was positive as the total Fund value increased by around 0.2%, significantly outperforming the strategic benchmark.	• The Fund's performance of 0.2% was behind the tactical benchmark of 1.9%. • Fund performance remains comfortably ahead of the strategic benchmark (the proxy assumed growth of liabilities) over longer time periods. • The outperformance of the assets relative to the strategic benchmark over all time periods considered indicates the funding level of the Fund (ratio of assets to liabilities) has improved significantly in recent times
USD and EUR denominated assets were negatively impacted as GBP appreciated, but the currency hedging programme offset this	• Many of the Fund's private market assets have either USD or EUR exposure. As a result, they demonstrated a weaker return when converted to GBP. However, currency hedging largely offset this.
Large negative relative returns were observed across some of the Fund's real asset and private debt mandates, but there are no immediate concerns	• Most of these mandates are measured against inflation and 'cash plus' based benchmarks. Year on year core inflation and interest rates remain high with asset returns not having kept pace over the short term • Overall property capital value declines have started to stabilise but values across the office sector continue to decline.

Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%)	Last 5 years (%)
Total Fund Performance	**0.2**	**2.7**	**4.3**	**4.7**
Tactical Benchmark	1.9	6.3	6.3	6.0
Strategic Benchmark	-5.7	-14.4	-10.6	-2.4

Fund Asset Valuation

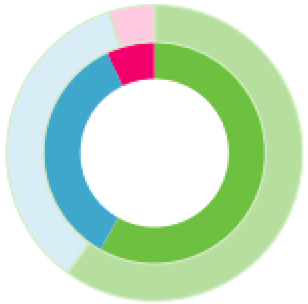
	Fund value (£m)
Q1 2023	**894.1**
Q2 2023	**905.0**

- The Fund's investment strategy is implemented through the London Collective Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV).
- The target allocation to LCIV and life funds totals 62.5% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically.
- The chart below right illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the multi-asset funds on a 'look through' basis.
- The Fund's overall allocation to equities marginally decreased over the quarter to c.42.1% (c.42.5% as at 31 March 2023) – this was due to the LCIV Absolute Return Fund's equity allocation decreasing from 22.7% to 15.5%. However, the Fund's overall allocation to equities increased (in GBP terms) as global equities rose over the quarter.
- The allocation to gilts fell to c.5.0% (c.5.4% as at 31 March 2023) – this was due to the LCIV Absolute Return Fund's allocation to fixed income inflation linked bonds increasing from 21.5% to 34.5%. Similarly, the allocation to corporate bonds increased to c.4.2% (c.2.8% as at 31 March 2023) – this was due to the LCIV Absolute Return Fund's allocation to fixed income nominal government bonds decreasing from 29.7% to 26.6%.
- The allocation to multi-asset credit increased to c.7.9% (c.7.6% as at 31 March 2023 – this was due to the LCIV Diversified Growth Fund increasing its allocation to investment grade and insurance linked securities over the quarter, from c.2.5% and c.3.5% to c.6.0% and c.5.1%, respectively.
- The allocations to real assets, private debt and high yield assets remained relatively unchanged over the quarter.

Asset Allocation

Long Term Target

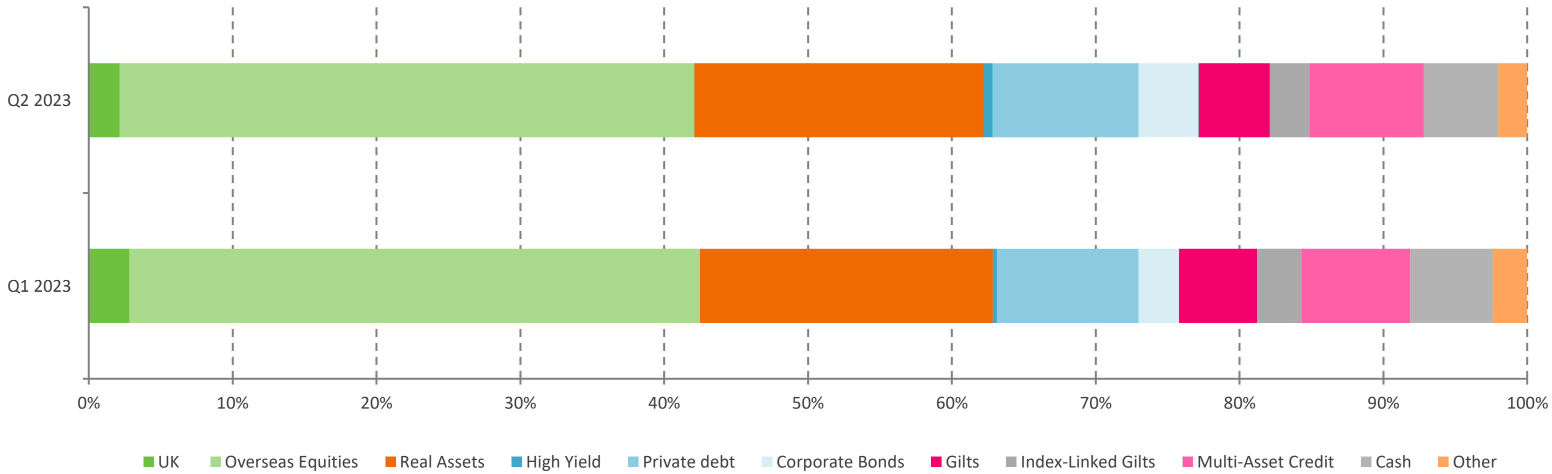
- Growth 60.0%
- Income 35.0%
- Protection 5.0%



Actual

- Growth 58.1%
- Income 34.8%
- Protection 7.0%

Asset Class Exposures



- The Fund's assets returned 0.2% over the quarter, underperforming its 1.9% benchmark return.
- The majority of equity mandates delivered positive returns as developed global equities rose over the quarter.
- The LCIV Absolute Return Fund continued to drag absolute and relative returns as the fund remains protectively positioned (i.e. providing protection against downside risk, rather than focussing on asset growth). Therefore, as higher risk asset classes such as equities continued to perform positively, the fund struggled.
- Similarly, the LCIV DGF dragged absolute and relative returns also as the fund's equity exposure had reduced from 21.5% as at 31 March 2023 to 13.3% as at 30 June 2023. Allocations to developed market government and corporate bonds also contributed negatively, as real gilt yields rose and offset the tightening of investment grade credit spreads over the period.
- As capital values stabilised over the quarter, there were mixed returns across the Fund's real assets in absolute terms. However, the majority of real assets underperformed their respective 'cash plus' benchmarks. Of the property funds (UBS and CBRE) both have sector allocations of 13.1% and 15.5%, respectively, to offices where capital values have continued to decline over the period.
- The RLAM Index Linked Gilts mandate delivered negative absolute returns as real gilt yields rose sharply over the second quarter of 2023 – with higher inflation and interest expectations over the medium term.
- Please note that all asset performance is in GBP terms and does not make an allowance for currency fluctuations. The total Fund performance includes the impact of the Russell currency overlay mandate. Please note the separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

Manager Performance

	Actual Proportion	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
		Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth	**58%**												
LGIM Global Equity	*4.0%*	3.3	3.4	**0.0**	11.6	11.7	**-0.1**	10.3	10.4	**-0.1**	11.4	11.4	**0.0**
LGIM Emerging Markets	*3.9%*	-1.9	-1.9	**0.0**	-3.4	-3.2	**-0.2**	2.3	2.6	**-0.2**	3.2	3.4	**-0.2**
LGIM Future World Fund	*10.5%*	1.9	1.9	**0.0**	9.3	9.5	**-0.1**	-	-	-	1.2	1.3	**-0.1**
LCIV Global Alpha Growth Paris Aligned Fund	*15.5%*	3.2	3.9	**-0.7**	11.0	13.2	**-2.0**	2.9	11.0	**-7.3**	12.1	11.7	**0.3**
LCIV PEPPA Passive Equity	*5.1%*	5.2	4.9	**0.3**	17.1	14.9	**2.0**	-	-	-	-0.3	-1.6	**1.4**
LCIV Absolute Return Fund	*12.0%*	-6.6	2.1	**-8.5**	-1.2	7.2	**-7.8**	4.8	5.2	**-0.4**	4.6	5.0	**-0.3**
LCIV Diversified Growth Fund	*7.2%*	-2.1	2.0	**-4.0**	-1.8	6.9	**-8.1**	0.3	4.8	**-4.3**	2.3	4.3	**-1.9**
Income	**35%**												
UBS Property	*5.7%*	0.8	0.4	**0.4**	-17.5	-17.4	**-0.2**	4.2	3.4	**0.8**	5.4	5.9	**-0.5**
CBRE	*3.7%*	-3.0	3.2	**-6.0**	-6.6	12.9	**-17.3**	5.5	11.6	**-5.5**	6.9	9.6	**-2.5**
JP Morgan	*4.1%*	-0.4	3.2	**-3.5**	1.7	12.9	**-9.9**	6.8	11.6	**-4.3**	8.2	9.6	**-1.2**
Stafford Capital Global Infrastructure SISF II	*4.1%*	-2.3	3.2	**-5.4**	9.0	12.9	**-3.5**	6.9	11.6	**-4.2**	8.0	9.4	**-1.2**
Stafford Capital Global Infrastructure SISF IV		3.0	3.2	**-0.2**	6.1	12.9	**-6.0**	-	-	-	17.3	12.1	**4.6**
LCIV Renewable Energy Infrastructure Fund	*1.4%*	-1.1	3.2	**-4.1**	36.7	12.9	**21.1**	-	-	-	17.3	13.6	**3.2**
RLAM Multi-Asset Credit	*6.7%*	1.1	1.9	**-0.8**	6.8	8.3	**-1.4**	0.7	1.2	**-0.5**	6.5	6.2	**0.3**
Churchill Senior Loan Fund II	*2.3%*	-0.5	2.1	**-2.5**	1.9	7.2	**-5.0**	5.5	5.2	**0.3**	5.5	5.1	**0.4**
Churchill Senior Loan Fund IV	*1.8%*	-0.6	2.1	**-2.6**	0.3	7.2	**-6.4**	-	-	-	8.9	6.3	**2.4**
Permira IV	*5.0%*	2.0	2.1	**0.0**	6.8	7.2	**-0.4**	5.3	5.2	**0.1**	4.4	5.2	**-0.7**
Permira V		2.4	2.1	**0.3**	5.3	7.2	**-1.8**	-	-	-	5.3	7.2	**-1.8**
Protection	**7%***												
RLAM Index Linked Gilts	*2.7%*	-9.8	-7.8	**-2.2**	-23.3	-20.0	**-4.2**	-16.3	-14.8	**-1.7**	-12.2	-10.8	**-1.6**
Total		0.2	1.9	**-1.6**	2.7	6.3	**-3.4**	4.3	6.3	**-1.9**	7.7	-	-

Source: Northern Trust, investment managers. Please note that benchmark performance for Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of outperformance targets. In addition, longer term performance for Baillie Gifford Global Equity, Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of performance prior to their transfer into the London CIV. LGIM Global and Fundamental Equity mandates were managed by SSGA prior to November 2017 and we have retained the performance history for these allocations. Performance figures for CBRE, Stafford and JP Morgan has been taken from the managers rather than Northern Trust. The Fund performance figure includes the effect of the currency hedging mandate managed by Russell.

**Includes cash at bank and currency hedging*

Current Investment Implementation

The total value of the Fund's assets increased by £10.9m over the quarter to £905.0m as at 30 June 2023.

The increase in valuation can be primarily attributed to the Fund's allocation to equities, followed by the Fund's allocation to infrastructure. Due to corporate earnings outperforming expectations and optimism in the technology sector, global equities continued to rise over the quarter.

Following high core inflation and continued increases in interest rates, real gilt yields rose over the quarter and a result the Fund's RLAM Index linked Gilts mandate decreased in value.

Global sub-investment grade credit spreads tightened 0.5% p.a. to 4.5% p.a. over the quarter, positively impacting the RLAM MAC mandate.

The Fund's real assets were relatively unchanged as capital values stabilised over the quarter. In property, capital values in the office sector however continued to decline.

The Fund's allocation to its multi-asset mandates, specifically the LCIV Absolute Return Fund, continued to fall in value over the quarter. This remained due to defensive positioning, when wider equity and bond market sentiments continued to improve over 2023.

The Fund paid the following capital calls during the quarter:

- c.£2.0m overall to the LCIV Renewable Energy Infrastructure Fund.
- c.£1.5m to the Churchill Fund IV.

Please see further details regarding the Fund's movement towards its 'Interim' investment strategy in our "LCIV Global Bond Fund Recommendation Note" and our previous investment strategy papers.

Asset Allocation

Manager	Pooling	Valuation (£m) Q1 2023	Valuation (£m) Q2 2023	Actual Proportion	Benchmark	Relative
Growth		**526.2**	**526.0**	**58.1%**	**60.0%**	**-1.9%**
LGIM Global Equity	LCIV aligned	34.6	35.8	4.0%	5.0%	-1.0%
LGIM Emerging Markets	LCIV aligned	36.2	35.5	3.9%	5.0%	-1.1%
LGIM Future World Fund	LCIV aligned	93.4	95.2	10.5%	10.0%	0.5%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	135.6	139.9	15.5%	15.0%	0.5%
LCIV PEPPA Passive Equity	LCIV	44.0	46.3	5.1%	5.0%	0.1%
LCIV Absolute Return Fund	LCIV	115.9	108.3	12.0%	12.5%	-0.5%
LCIV Diversified Growth Fund	LCIV	66.5	65.1	7.2%	7.5%	-0.3%
Income		**311.9**	**315.3**	**34.8%**	**35.0%**	**-0.2%**
UBS Property	Not pooled	51.1	51.2	5.7%	6.0%	-0.3%
CBRE	Not pooled	34.7	33.6	3.7%	4.0%	-0.3%
JP Morgan	Other pooled	37.0	37.0	4.1%	4.0%	0.1%
Stafford Capital Global Infrastructure SISF II	Not pooled	19.9	19.3	4.1%	3.5%	0.6%
Stafford Capital Global Infrastructure SISF IV	Not pooled	16.4	17.5			
LCIV Renewable Energy Infrastructure Fund	Not pooled	11.2	13.0	1.4%	2.5%	-1.1%
RLAM Multi-Asset Credit	Not pooled	60.4	61.1	6.7%	7.5%	-0.8%
Churchill Senior Loan Fund II	Other pooled	21.8	21.0	2.3%	3.0%	-0.7%
Churchill Senior Loan Fund IV	Other pooled	15.3	16.3	1.8%		
Permira IV	Other pooled	31.0	31.1	5.0%	4.5%	0.5%
Permira V	Other pooled	13.2	14.4			
Protection		**55.9**	**63.6**	**7.0%**	**5.0%**	**2.0%**
RLAM Index Linked Gilts	Not pooled	27.3	24.6	2.7%	5.0%	-2.3%
Cash at Bank	n/a	22.8	29.1	3.2%	0.0%	3.2%
Currency Hedging P/L	Not pooled	5.9	9.9	1.1%	0.0%	1.1%
Total Fund		**894.1**	**905.0**	**100.0%**	**100.0%**	

Pooling refers to whether the holding benefits from some form of collective bargaining. LCIV and LCIV aligned reflect mandates aligned with or managed by the LCIV. Other pooled indicates mandates where there are collective LGPS fee arrangements in place. Not pooled indicates mandates outside pooling arrangements.

Source: Northern Trust, Investment Managers

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LGIM Global Equity Fund

- The objective of this fund is to match the performance of the benchmark FTSE All World Index.

LGIM Emerging Markets Fund

- The objective of this fund is to match the performance of the benchmark FTSE Emerging Markets Index.

LGIM Future World Fund

- The objective of this fund is to match the performance of the benchmark FTSE All World ex. Controversial Weapons Climate Balanced Factor Index.

Over the quarter, longer time periods of 1 year and 3 years and since inception, all LGIM equity funds have performed broadly in line with their respective benchmark indices.

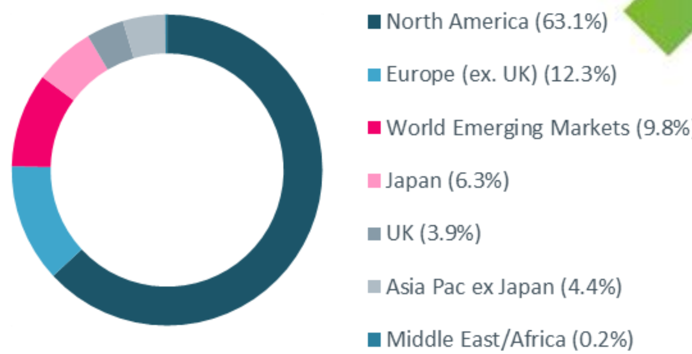
Both the Global Equity and Future World funds returned positively over the quarter due to their significant allocations to the technology sector – 24.0% and 20.6%, respectively. The performance was driven by the increasing interest in artificial intelligence as well as strong performance from 'mega-cap' technology stocks such as Apple, Microsoft, Amazon etc.

The Emerging Markets fund returned negatively over the quarter due to its large regional allocation to China, 32.8%. Emerging market performance lagged over the second quarter, with the slower than expected, post-Covid, economic recovery from China driving underperformance.

LGIM Global Equity

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Global Equity	3.3	11.6	10.3	11.4
Benchmark	3.4	11.7	10.4	11.4
Relative	0.0	-0.1	-0.1	0.0

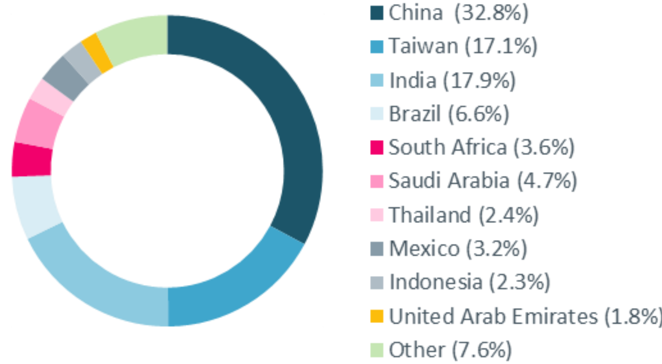
Region allocation



LGIM Emerging Markets

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Emerging Markets	-1.9	-3.4	2.3	3.2
Benchmark	-1.9	-3.2	2.6	3.4
Relative	0.0	-0.2	-	-0.2

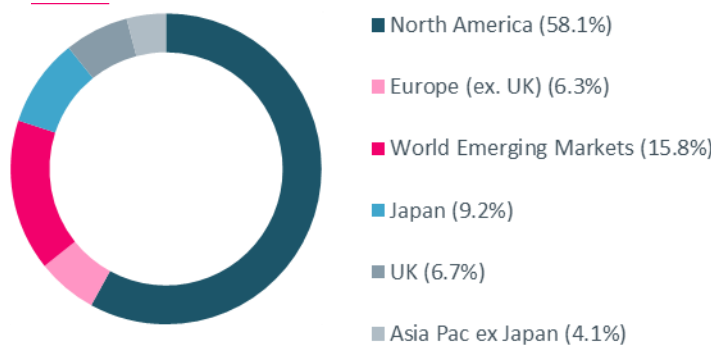
County Allocation



LGIM Future World

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
LGIM Future World Fund	1.9	9.3	1.2
Benchmark	1.9	9.5	1.3
Relative	0.0	-	-0.1

Region allocation



Source: Investment Managers, LCIV, Northern Trust.

Manager Analysis

- The Fund accesses global equity sub-funds through LCIV. LCIV are responsible for the ongoing monitoring and governance of any underlying investment managers.

LCIV Global Alpha Growth Paris Aligned Fund

- The sub-fund's objective is to match the performance of the MSCI ACWI Index + 2% p.a..
- The sub-fund returned positively over the quarter due to allocations to consumer discretionary and technology sectors, 20.9% and 16.4%, respectively. Both of which performed positively over the quarter. However, the sub-fund's relative underweight to the technology sector in comparison to its benchmark index, resulted in slight underperformance over the period.
- Over the longer period of 1 year and 3 years, the sub-fund underperforms its benchmark. However, since inception the sub-fund marginally outperforms its benchmark.

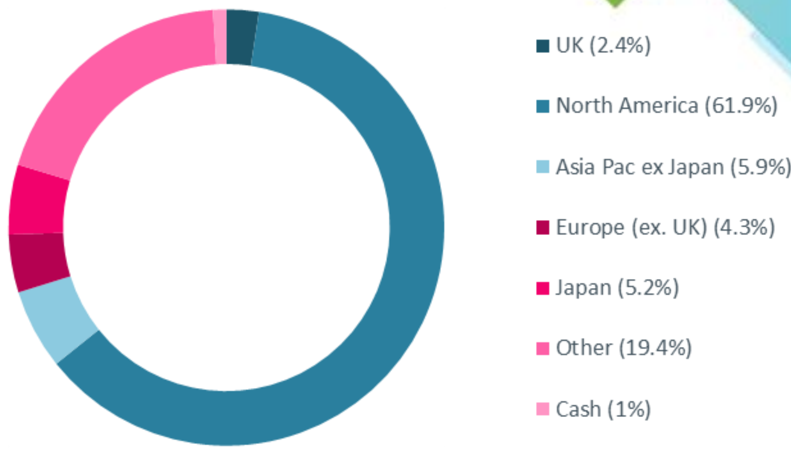
LCIV Passive Equity Progressive Paris Aligned Fund

- The sub-fund's objective is to match the performance of the S&P Developed Ex-Korea Large Mid Cap Net Zero 2050 Paris-Aligned ESG Index.
- The sub-fund returned positively over the quarter, again, due to allocations to technology and consumer discretionary sectors, 23.6% and 11.1% respectively.
- As a passive sub-fund, regional and sectoral allocations were in line with the benchmark index, with little divergence, and as such, the sub-fund performed broadly in line with the benchmark index over all time periods.

LCIV Global Alpha Paris Aligned

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Global Alpha Paris	3.2	11.0	2.9	12.1
Benchmark	3.9	13.2	11.0	11.7
Relative	-0.7	-2.0	-7.3	0.3

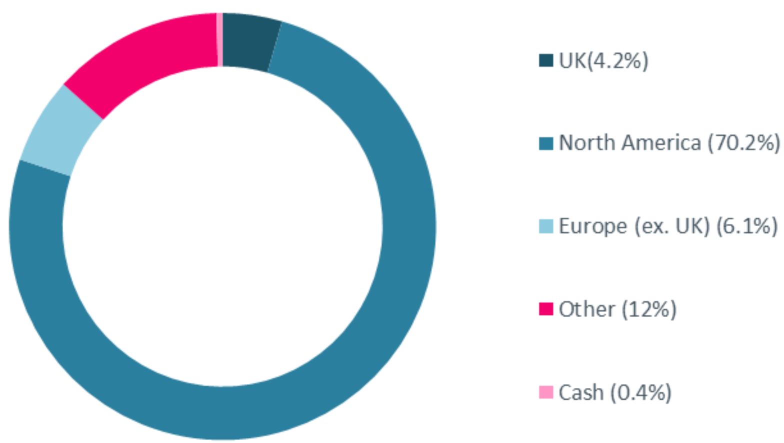
Country Weights



LCIV PEPPA Passive Equity

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
LCIV PEPPA Passive Equity	5.2	17.1	-0.3
Benchmark	4.9	14.9	-1.6
Relative	0.2	2.0	1.4

Country Weights



Source: Investment Managers, LCIV, Northern Trust.

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Manager Analysis

Russell Currency Hedging

- Russell Investments have been appointed to manage the Fund's currency overlay mandate.
- The current policy is to hedge non-sterling exposures in the Fund's private markets mandates. Currency exposure in equity mandates is retained.
- At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged within any residual currency exposure retained on a de-minimis basis.
- The volatility of returns (measured as the standard deviation of quarterly returns since inception) is 5.0% to date when the impact of currency fluctuations is included and only 4.5% when currency movements are stripped out by the Russell currency overlay mandate. This continues to indicate that the Russell mandate is reducing overall volatility and increasing the predictability of returns, as intended.

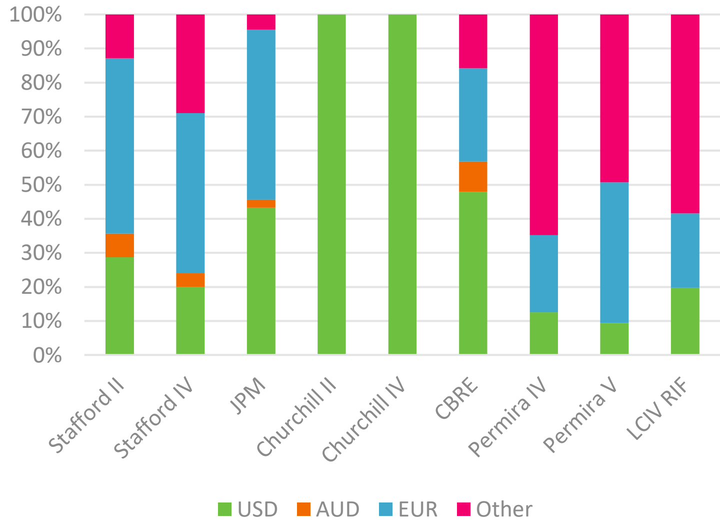
Q2 2023 Performance

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	-2.3	2.3	0.0	3.2	-3.1
Stafford IV	3.0	1.8	4.7	3.2	1.5
JPM	-0.4	2.5	2.2	3.2	-1.0
Churchill II	-0.5	2.5	2.0	2.1	0.0
Churchill IV	-0.6	2.4	1.8	2.1	-0.2
CBRE	-3.0	2.3	-0.7	3.2	-3.8
Permira IV	2.0	1.7	3.8	2.1	1.7
Permira V	2.4	1.8	4.2	2.1	2.1
LCIV RIF	-1.1	1.0	-0.1	3.2	-3.2

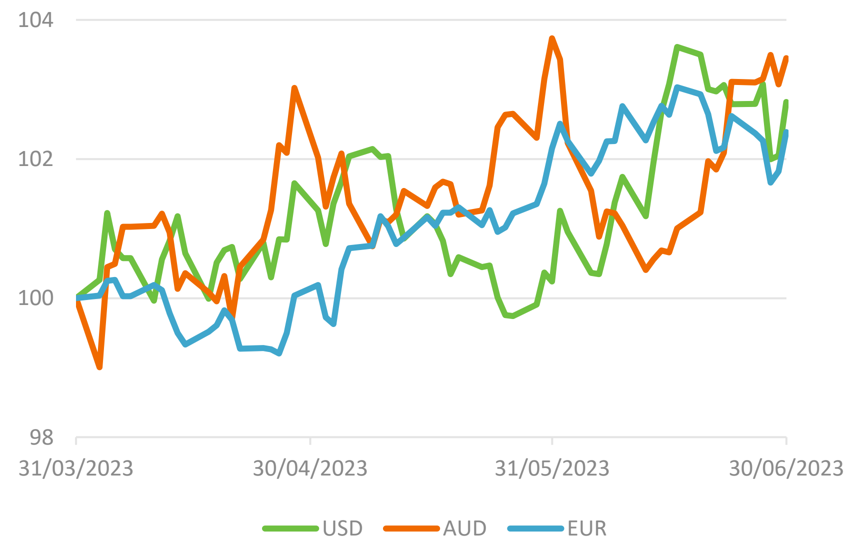
Performance Since Mandate Inception*

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	8.7	-0.4	8.3	9.4	-1.0
Stafford IV	19.4	-1.6	17.8	12.1	5.1
JPM	9.4	-0.8	8.6	9.6	-0.8
Churchill II	6.8	-2.0	4.8	5.1	-0.3
Churchill IV	8.9	-4.3	4.6	6.3	-1.6
CBRE	7.2	-0.6	6.6	9.6	-2.7
Permira IV	4.4	0.1	4.6	5.2	-0.6
Permira V	5.3	-2.1	3.2	7.2	-3.7
LCIV RIF	17.3	-0.8	16.5	13.6	2.5

Hedged Currency Exposure **



Sterling Performance vs. Foreign Currencies (Rebased to 100 at 31 March 2023)



Source: Northern Trust, Investment managers

**Since inception performance is since individual fund inception of inception of the currency hedging mandate, whichever is more recent. ** As at 31 March 2023 (latest available).*

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- Since March 2018, the Fund has made commitments to seven private markets funds as outlined right. The table provides a summary of the commitments and drawdowns to 31 March 2023.
- The outstanding commitments to the remaining funds will be funded from the LCIV Diversified Growth Fund, other overweight positions alongside capital being returned from other mandates.

Mandate	Infrastructure			Private Debt		
Vehicle	Stafford Infrastructure Secondaries Fund II	Stafford Infrastructure Secondaries Fund IV	LCIV Renewable Energy Infrastructure Fund	Churchill Middle Market Senior Loan Fund IV	Permira Credit Solutions IV Senior Fund	Permira Credit Solutions V Senior Fund
Commitment Date	25/04/2018	18/12/2020	30/06/2021	29/09/2021	12/2018	07/11/2022
Fund Currency	EUR	EUR	GBP	USD	EUR	EUR
Gross Commitment	€28.5m	€30m	£25m	$26.5m	£36.0m	£43.0m
Gross Commitment (GBP estimate)	£24.5m	£25.7m	-	£20.8m	-	-
Capital Called During Quarter (Payments Less Returned Capital)	-	-	£2.0m	£1.5m	-	-
Capital Drawn To Date	£26.3m	£15.4m	£9.8m	£17.2m	£31.1m	£12.7m
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£13.4m	£0.9m	-	£1.6m	£4.9m	£0.2m
NAV at Quarter End	£19.3m	£17.5m	£13.0m	£16.3m	£31.1m	£14.4m
Net IRR Since Inception *	8.8% p.a. (v. 8-9% target)	17.4%	-	5.8%**	7.9%	23.4%
Net Cash Yield Since Inception*	7.4% p.a. (v. 5% target)	5.3%	-	-	-	-
Number of Holdings*	22 funds	17 funds	-	131 investments	83 investments	31 investments

**as at 31 March 2023 (latest available) **Refers to IRR of realised assets in the portfolio*

Source: Investment Managers

Consensus forecasts for 2023 global GDP growth saw further upwards revisions in Q2, given unexpected resilience in labour markets and consumer spending. Nonetheless, with higher interest rates likely to weigh on consumer and business activity in the second half of 2023 and into 2024, growth forecasts remain relatively weak.

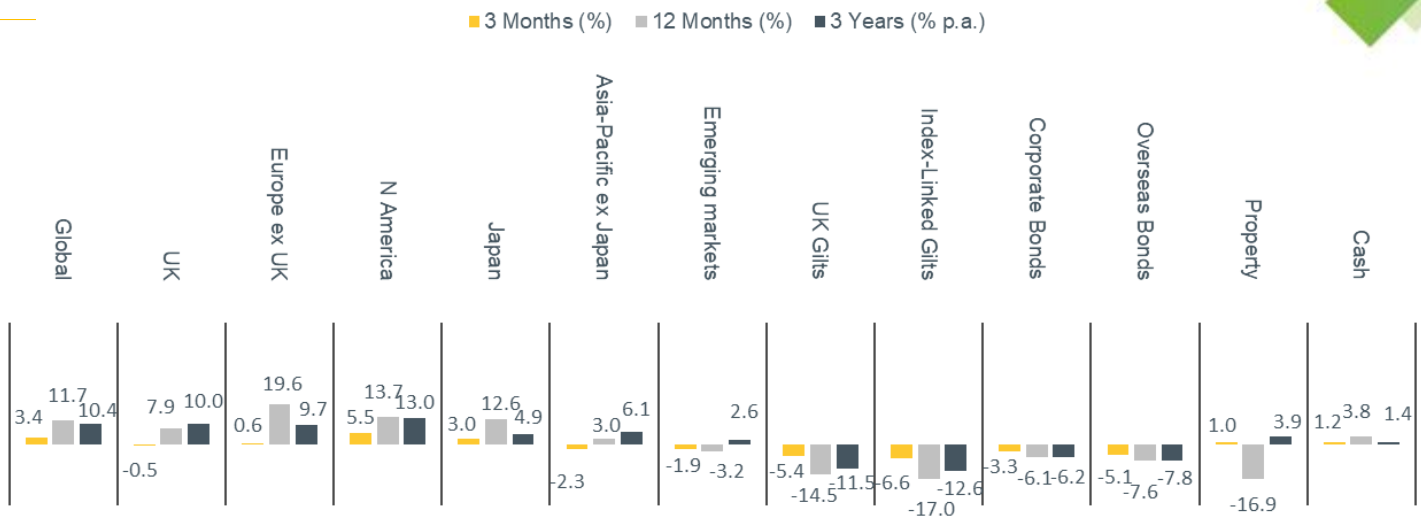
UK inflation data released during Q2 came in higher than forecasters expected. However, June’s UK headline CPI inflation figure, released in July, fell more than expected, to 7.9% year-on-year and core inflation slipped back to 6.9% from 7.1%. Equivalent CPI inflation in the US and Eurozone fell to 3.0% and 5.5%, respectively, in June, and core inflation eased to 4.8% in the US, but rose to 5.5% in the Eurozone.

Responding to a run of higher-than-expected inflation, the Bank of England (BoE) raised rates by 0.75% p.a. in Q2, to 5.0% p.a., including a surprise 0.5% p.a. increase in June. The US Federal Reserve raised rates by 0.25% p.a., to 5.25% p.a., in May; pausing in June to evaluate the impact of prior tightening. The European Central Bank increased their deposit rate 3.5% p.a.

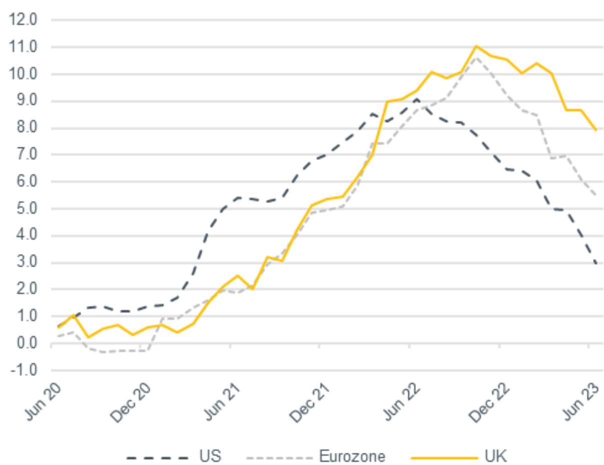
UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, was unchanged at 3.6% p.a., as real and nominal yields rose by similar amounts.

UK gilt yields surged as disappointing inflation data was compounded by heavy issuance and BoE gilt sales. UK 10-year gilt yields rose sharply by 0.8% p.a. to 4.4% p.a., while US yields rose 0.2% p.a. to 3.8% p.a., and equivalent German yields rose 0.1% p.a., to 2.4% p.a.

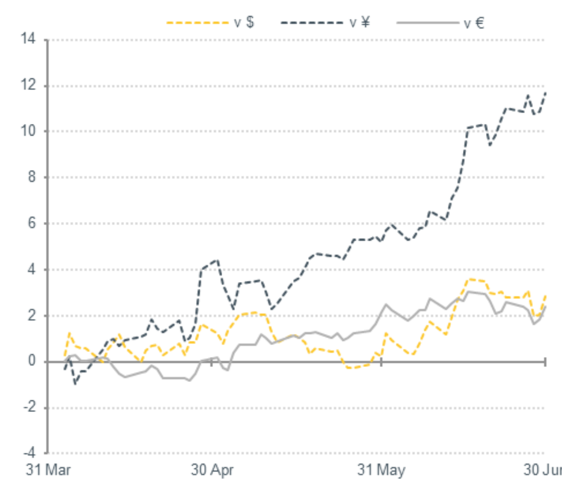
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

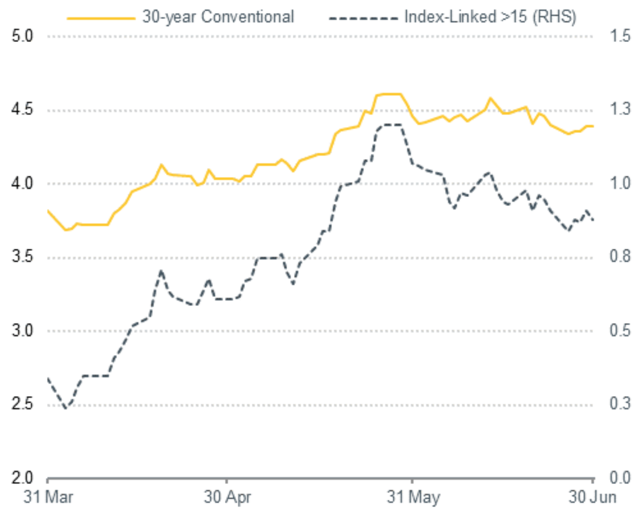
The UK investment-grade credit market recorded negative total returns as the rise in underlying gilt yields more than offset a fall in credit spreads. Global investment-grade credit spreads decreased by 0.1% p.a. to 1.4% p.a., and global speculative-grade credit spreads decreased by 0.5% p.a. to 4.5% p.a.

The FTSE All World Total Return Index rose 6.7%, buoyed by better-than-expected earnings and AI-inspired optimism around the technology sector. Japanese and North American equities outperformed, with the exporter-heavy index of the former benefitting from Yen weakness and the latter benefitting from its disproportionately high exposure to the technology sector. Disappointing Chinese activity data dragged down emerging markets and Asia Pacific ex-Japan. The UK was the worst performing region, as the basic materials and energy sectors underperformed amid commodity price declines and global manufacturing weakness.

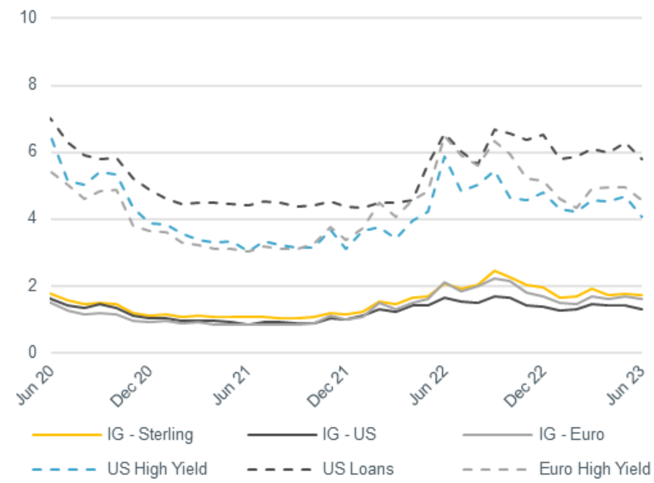
Sterling rose over 4.0% in trade-weighted terms as interest rate expectations soared. Meanwhile, equivalent US and euro measures rose 0.8% and 2.1%, respectively, while the yen measure fell more than 5%. The S&P GSCI Commodity Spot Price Index fell 5.8% in Q2, driven by declines in energy and industrial metal price.

UK commercial property values, as measured by the MSCI UK Property Index, had fallen by over 21% in the 12 months to end-June. Capital values have somewhat stabilised in recent months, though office values continued to decline in June. Alongside income, this led to a modest positive total return from the market over the quarter.

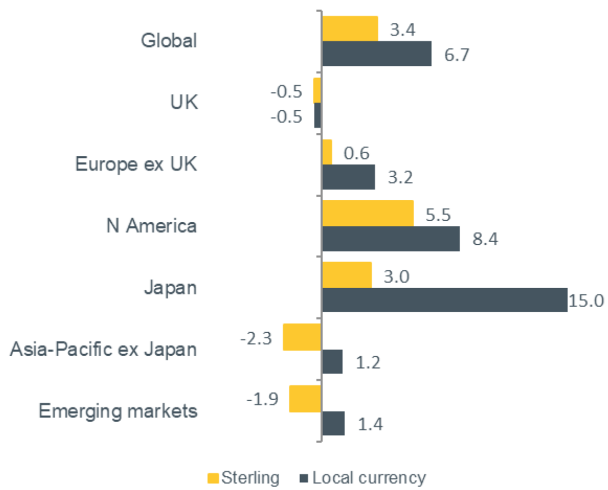
Gilt yields chart (% p.a.)



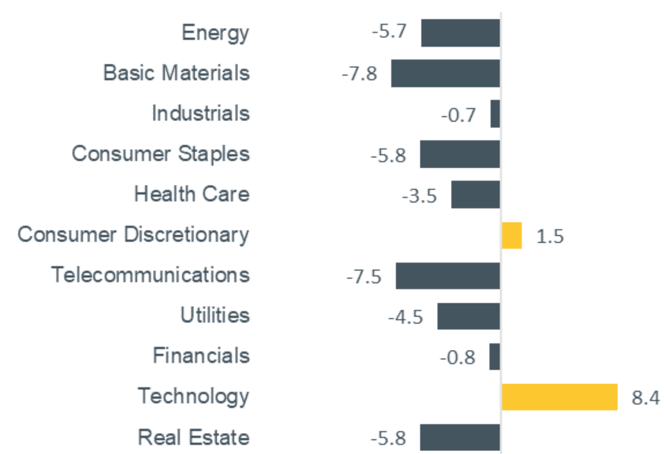
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



Global equity sector returns (%) [2]



Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

Capital Markets Outlook

Asset Class	Market Summary
Equities	• Despite consensus global corporate earnings growth expectations for full-year 2023 sitting at a lacklustre 0.7%, they may still be vulnerable to disappointment should economic growth slow as we expect. Recent price performance has taken cyclically adjusted valuations further above long-term averages, leaving limited scope for revaluation to drive equities higher against a challenging fundamental backdrop. Furthermore, recent rises in real yields leave equities looking very expensive relative to risk-free assets.
Investment Grade Credit	• Debt affordability metrics are expected to come under pressure, but corporate balance sheets start from a strong position. Though speculative-grade default rates are expected to peak at lower levels than in previous slowdowns, we retain a preference for investment-grade markets, where the deterioration in fundamentals is expected to be less severe and take longer to materialise than in speculative-grade markets.
Emerging Market Debt	• Given an earlier and sharper tightening of monetary policy, several EM regions have positive real policy rates and inflation is declining, albeit from elevated levels. This provides a relatively supportive backdrop for local currency yields, which remain above our assessment of longer-term fair value. A weak growth outlook, disappointing Chinese economic data, and commodity price declines make for a more challenging fundamental backdrop for hard currency debt. However, index-level spreads are well above long-term median levels.
Liquid Sub-Investment Grade Debt	• Default rates have started to rise with the loan market leading the cycle given the rapid increase in lower-rated, loan only capital structures in recent years. Global high-yield bond spreads, below long-term medians, offer little compensation against downside risks and though loan spreads are higher relative to history, this largely reflects greater fundamental risks in the loan market.
Private Lending	• Manager's underwriting has become more conservative as debt affordability is expected to come under pressure from rising borrowing costs and weaker earnings. Leverage levels on new deals has fallen as a result. Defaults are rising but given a greater proportion of non-cyclical origination may peak at lower levels than the traded loan market. Valuations are attractive relative to the new issue traded loan market, which is now functioning again.
Core UK Property	• Although yields have risen sharply over the last year, they remain low versus history, and do not yet reflect adequate compensation for the risks. Furthermore, the yield premium on commercial property versus gilts suggests property looks increasingly expensive relative to risk-free assets. While capital values have stabilised in recent months, transaction volumes are low, and the economic backdrop and higher interest rates could easily force more sellers to market.
Conventional Gilts	• Even allowing for elevated near-term inflation, slightly higher inflation over the medium term, and the uncertainty associated with that outlook, 10-year nominal gilt yields of 4.6% pa look attractive versus our assessment of fair value of around 3.5% pa. We see the best value in gilt yields at maturities out to 20 years, given a sharp fall in longer-term forward real and nominal yields beyond. However, quantitative tightening and heavy issuance make for a very fragile technical backdrop.
Index-Linked Gilts	• Ten-year index-linked gilt yields have also risen to reasonably attractive levels of 1.1% pa. Very weak real growth forecasts and sticky inflation should help keep a lid on real yields. Gilt-implied inflation, as measured by the difference between nominal and index-linked yields of the same maturity, indicates short-dated index-linked gilts offer decent value but suggests a relative preference for nominal gilts at medium-to-longer terms.

The table summarises our broad views on the outlook for markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative. The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed.

Source: Hymans Robertson

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Hymans Robertson LLP and our group companies have a wide range of clients some of which are fund managers, who may be parties in our recommendations to you in various circumstances including but not limited to manager selection, moving money to or from a manager or supporting retention of or disinvestment from a manager. We have a research team that advises on shortlisting fund managers in manager selection exercises and forming views on managers, which is separate from our client and other relationships with fund managers and therefore we do not believe there will be a conflict that would influence the advice given.

Geometric vs. Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance\ - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **12 September 2023**

Subject Heading:	**REVIEW OF THE INVESTMENT STRATEGY STATEMENT**
CLT Lead:	**Kathy Freeman**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager (Finance)** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 requires an administrative authority to periodically review this statement
Financial summary:	No direct financial implications

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The Fund's statutory Investment Strategy Statement (ISS) was approved by Pensions Committee on 29 July 2020 and is subject to periodic review at least every three years and it is timely to undertake this following the triennial valuation. The Fund's investment Advisor (Hymans), has now undertaken a review of the document in line with the Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 and guidance issued by the Secretary of

State. The proposed updated version is set out in **Appendix A** (tracked changes version) and **Appendix B** (clean version).

RECOMMENDATIONS

That the committee:

1. Consider any consultation responses and, subject to these, decide whether to agree the proposed amendments to the ISS (**Appendix A- tracked changes).**

2. Note the clean version at **Appendix B,** as attached

3. Note the reporting of compliance against the Myner's investment principles, as set out in **Appendix C.**

REPORT DETAIL

1. Statutory Background

1.1 The Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 Regulation 7 came into force in November 2016 and is set out below.

1.2 Regulation 7 (1) - An authority must, after taking proper advice, formulate an investment strategy which must in accordance with guidance issued from time to time by the Secretary of State.

1.3 Regulation 7 (2) The Investment Strategy Statement must include:

a) a requirement to invest fund 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 assessed 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 and 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 the rights (including voting rights) attaching to investments.*

1.4 *Regulation 7 (3) - The authority's investment strategy must 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.*

1.5 *Regulation 7 (4) - The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(1).*

1.6 *Regulation 7(5) -The authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.*

1.7 *Regulation 7(6) - The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st April 2017*

1.8 *Regulation 7 (7) -The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.*

1.9 *Regulation 7 (8) - The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.*

2. Background

2.1 Following the Fund's Actuarial valuation as at 31 March 2022, a review of the current ISS was carried out to ensure that it remained appropriate to meet its long term objectives: to ensure assets are invested to secure funding for members' benefits.

2.2 Officers discussed the outcome of this review at a meeting in October 2022 in which it was acknowledged there was a need to shift towards "increased income" investments as part of any investment strategy review and the progression of this strategy was later discussed in February 2023.

2.3 Hymans, subsequently produced the Investment Strategy Considerations paper, which was agreed at the Pensions Committee meeting held on the 21 March 2023 which agreed the proposed interim and long term asset allocation changes to the Fund's Investment Strategy.

2.4 These asset allocation changes have been incorporated within the ISS, attached as **Appendix A**. The track changes version of the statement is attached so members can see where changes were made. **Appendix B** being a "clean" version to view.

2.5 In line with LGPS (Management and Investment of Funds) Regulations 2016 Section 7 (5) the authority must consult such persons as it considers appropriate as to the proposed content of its investment strategy. The ISS including revisions was distributed to all participating stakeholders in the Fund i.e. Employers, Fund Managers and the Local Pension Board on the 18 August 2023. Closing date for any comments was the **8 September 2023**.

2.6 Any comments received from the consultees will be reported to members on the night of the meeting for consideration and following the committee's consideration of the consultee's comments the ISS will be updated where required and published.

2.7 Whilst the reporting of compliance against the Myner's investment principles is no longer a statutory requirement, the Pensions Committee previously agreed that it met best practice to continue to report compliance and this is therefore set out in **Appendix C,** as attached. Compliance was previously required to report on a comply or explain basis and this format has been retained.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly, however undertaking a review of the Investment Strategy will identify whether the investment objectives are being met and comply with Regulations.

The updated ISS reflects asset allocation decisions already made at its meeting on the 21 March 2023 and 12 July 2023.

Advisory costs: The advisory costs of implementing the changes made to the investment strategy and its structure will be incurred through the Investment Management consultancy services contract with Hymans. Costs are ongoing throughout implementation and will be monitored closely by Officers - the final cost will not be known until this has concluded and is dependent on the direction of strategy options taken forward by the Committee.

Legal implications and risks:

It is a principle of administrative law that when the Authority has a duty to consult it must conscientiously take into consideration the representations of consultees before making its decision. Accordingly, any comments provided under para 2.6 above should be considered conscientiously.

Otherwise there are no apparent legal implications and the applicable law is set out in the main body of the Report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

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Investment Strategy Statement

1. Introduction and background

1.1 This is the Investment Strategy Statement ("ISS") of the London Borough of Havering Pension Fund ("the Fund"), which is administered by Havering Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

1.2 The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP and having regard to guidance issued by the ~~Ministry for Housing, Communities and Local Government (MHCLG)~~ Department for Levelling Up, Housing and Communities ("DLUHC"). The Committee acts on the delegated authority of the Administering Authority.

1.3 In order to guide the ongoing development of its investment strategy, the Committee has considered and agreed a series of investment beliefs. These beliefs are set out in Appendix 1.

1.4 The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

1.5 The Committee seeks to invest, in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (dated ~~December 2019~~~~2020~~April 2023).

1.6 The ISS was approved by the Committee on ~~17 March 2020~~12 September 2023.

2. The suitability of particular investments and types of investments

2.1 The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the Local Government Pension Scheme. Against this background, the Fund's approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

2.2 The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

2.3 The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed, but will take account of future salary and/or inflation increases.

2.4 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. 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. This approach helps 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), together with the level of disclosed surplus or deficit (relative to the funding bases used).

2.5 It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

2.6 Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. For direct investments, an Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions. For pooled vehicles, appropriate governing documentation is in place for each pooled fund.

2.7 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile;
- The level of expected risk;
- Outlook for asset returns.

2.8 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Committee has adopted a rebalancing policy which is triggered if the Fund's asset allocation deviates by 5% or more from the strategic allocation.

2.9 In order to avoid excessive rebalancing, the assets will not be brought back to the absolute strategic benchmark, but to a position that is approximately ~~half way~~halfway between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.

2.10 If rebalancing is triggered, the assets will be rebalanced back to within 2.5% of the strategic asset allocation.

2.11 In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Pensions Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweight assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

3 Investment of money in a wide variety of investments

Asset classes

3.1 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.

3.2 The Committee reviews the nature of the Fund's investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

3.3 The Fund's target investment strategy is set out in Table 1 below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority'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 that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Fund allocation

Asset class	Benchmark Proportion %	Maximum %
Global Equity	~~35.0~~40.0	~~45.0~~50.0
Multi Asset	12.5~~27.5~~~~20.0~~	17.5~~40.0~~~~25.0~~
Property	10.0	15.0
Infrastructure	~~7.5~~12.5	~~15.0~~17.5
Bonds & Cash	~~20.0~~25.0	~~25.0~~30.0
Total	100.0	

3.4 At ~~31 December 2019~~30 June 2023, the expected return of this portfolio over a 20-year time horizon was ~~5.~~7.8% p.a. with an expected volatility of ~~12.9~~13.36% p.a. This volatility includes an assumed diversification benefit. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Managers

3.5 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

3.6 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The current manager benchmarks are set out in Appendix 2 to this Statement. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects the composition of their respective benchmark indices.

4 Risk management

4.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

4.2 The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

4.3 Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement ("FSS") is prepared every three years as part of the triennial valuation and the Committee monitors the Fund's investment strategy and performance relative to the growth in the liabilities at mid-cycle to the triennial valuation. The following key risks have been identified:

- **Financial mismatch**: The Committee recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate the risk an investment strategy is set which provides exposure to assets providing inflation protected growth as well as cash flow generating assets that match the Fund's liabilities.

- **Changing demographics**: This relates to the uncertainty around longevity. The Council recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

- **Systemic risk**: The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

4.4 The Committee measures and manages financial mismatch 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 which focused on probability of success and level of downside risk. This analysis will be revisited as part of the ~~2019~~2025 valuation process. 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 returns relative to a strategic benchmark. The current strategic benchmark is the return on index-linked Government bonds plus ~~1.8~~1.7% per annum, which is consistent with the discount rate used by the Actuary as part of the 2022 actuarial valuation to value the Fund's liabilities.

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

4.6 The Committee seeks to mitigate systemic risk through a diversified portfolio but recognises that it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

4.7 The Committee recognises that the Fund's investments are exposed to a range of asset specific risks which include:

- **Concentration risk**: This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Committee attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly and following a regular fund manager review process. The Fund's investment in multi-asset and absolute return mandates increases diversification further, with investment managers able to invest across the full spectrum of the investment universe in order to manage risk.

- **Liquidity risk**: Investments are held until such time as they are required to fund payment of pensions. The liquidity risk is being very closely monitored as the Fund matures (i.e. as the level of benefit outgo increases relative to the contributions received by the Fund). The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

- **Currency risk**: The strategic asset allocation adopted by the Committee provides for an element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance.

- **Environmental, social and governance ("ESG") risks**: The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

- **Manager risk**: Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Committee when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.

- **Climate risk**: The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

4.8 The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. 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.

4.9 The Committee has chosen to manage currency risk as follows:

- Within equity mandates, the Committee has chosen to retain currency risk unhedged.

- Within multi-asset mandates, the managers employed have discretion to make use of currency exposure as a source of potential return although are mandated to deliver returns relative to a sterling objective. The Committee is therefore satisfied that currency risk is managed within these mandates but monitors currency exposures.

- Within real asset and private debt mandates, where overseas currency exposure arises, the Committee has chosen to hedge 100% of such currency exposure (subject to de minimis limits) given the expectation that income is a primary driver of return.

4.10 The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing a number of managers and making use of passive investment. The Committee assesses the investment managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

4.11 Details of the Fund's approach to managing ESG and climate risks are set out later in this document.

Other provider risks

4.12 The Committee recognises that investment risk arises in the operational management of the Fund and have identified the following major risks:

- **Transition risk**: The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

- **Custody risk**: The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- **Credit default**: This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. Where appropriate, the Committee has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk.

- **Stock-lending risk**: The possibility of default and loss of economic rights to Fund assets.

4.13 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

4.14 A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

5 The approach to pooling

5.1 The Fund is a shareholder and a participating scheme in the London CIV Pool. The London CIV is authorised by the FCA as an ~~alternative~~ Alternative I~~i~~nvestment Fund Manager with permission to operate a UK based Authorised Contractual Scheme Fund. The structure and basis on which the London CIV Pool will operate was set out in the July 2016 submission to Government.

5.2 The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the 2016 submission to Government. The key criteria for assessment of Pool solutions is as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

5.3 At the time of preparing this statement, 61.0~~62.5~~% of the Fund's assets were invested through the Pool or through passive vehicles facilitated by the Pool as set out in Table 2 below:

Table 2: Pool allocations

Asset class	Invested through pool %	Retained outside pool %
Global Equity	~~35.0~~40.0	-
Multi Asset	~~27.5~~12.5	-
Property	-	10.0
Infrastructure	~~-~~3.5	~~7.5~~9.0
Bonds & Cash	~~-~~5.0	~~20.0~~20.0
Total	**~~62.5~~61.0**	**~~37.5~~39.0**

5.4 The Fund has committed 7.5% of its assets to private debt mandates that were procured on a collaborative basis in conjunction with other London LGPS funds. Further, 5.5% of assets are invested in an infrastructure fund where all LGPS investors are treated collectively.

5.5 The Fund holds ~~17.5~~22.5% of the Fund in property and infrastructure assets and 19.0% of these (which includes the infrastructure allocation noted above) will remain outside of the London CIV pool as the cost of exiting these strategies would have a negative financial impact on the Fund. These will be held until such time as a cost-effective means of transfer to the Pool is available or until the Fund changes asset allocation and makes a decision to disinvest.

5.6 Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

6 Approach to responsible investment including climate change considerations

6.1 It is recognised that a range of factors, including ESG factors, can influence the return from investments. The Fund will therefore invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including ESG factors to the extent these directly or indirectly impact on financial risk and return. In making investment decisions, the Fund seeks and receives proper advice from internal officers and external advisers with the requisite knowledge and skills.

6.2 The Fund recognises that climate change is a systemic risk with the potential to directly impact economic, financial and social systems. ~~Wherever possible, the Fund will directly consider the potential impact of climate risks on investment decision making within its investment portfolios. In addition, t~~The Fund has developed a climate ~~risk~~ policy ~~to~~which sets out its long-term ambitions in addressing climate risk and the actions that the Fund will take to decarbonise its investment strategy and better align its investments with the transition to a low carbon economy.~~ better manage this risk and aim to reduce the carbon exposure across the portfolio.~~

6.3 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, climate and ethical considerations, into the decision-making process for all fund investments. Within passive mandates where the choice of index dictates the assets held by the investment manager and the manager has minimal freedom to take account of factors that may be deemed to be financially material, the Fund will review the index benchmarks employed for the Scheme on at least a triennial basis.

6.4 The Fund 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. As a minimum, the Fund expects its managers (including the London CIV) to be signatories of the UN supported Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code. The Fund will periodically review its managers' reporting against these standards, as well as other relevant industry standards, and will challenge its managers to improve their practices where the Fund deems it appropriate to do so.

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 underlying investments with regard to the 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 will engage with its managers to understand what actions have been taken during regular review meetings.

6.6 Whilst the Fund expects that manager appointments in respect of new investments will be made through the London CIV, where the Fund makes its own appointments, responsible investment considerations will form a component of the manager selection decisions. The Fund will also encourage the London CIV to adopt best practice standards in the evaluation and monitoring of managers employed for investment.

6.7 Effective monitoring and identification of ESG 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. Where appropriate, the Fund will work with the London CIV to promote collective engagement on behalf of all investors.

6.8 The Fund monitors the activity of its investment managers on an ongoing basis and will review the approach taken annually.

7 Consideration of non-financial factors and social investments

7.1 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee will review its approach to non-financial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

7.2 The Committee understands the Fund is not currently 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.

7.3 The Fund does not at the time of preparing this statement hold any assets which it deems to be explicit social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

8 Stewardship of assets

8.1 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.

8.2 The Fund recognises that its equity assets are invested in pooled vehicles, it remains subject to the voting policies of the managers of these vehicles:

- Investments through the London CIV are covered by the voting policy of the LCIV 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 LAPFF directions.~~

- In respect of Fund investments outside the London CIV, the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

8.3 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 their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitors the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.

8.4 The Committee will request its investment managers provide details of any change in policy on an annual basis. The Committee will review these changes and, where necessary, will challenge managers to explain the reasoning for any change.

8.5 The Committee reviews voting activity by its investment managers on an annual basis and may also periodically review managers' voting patterns. The Committee will challenge its managers to explain voting decisions on certain issues, particularly with regard to climate risk disclosure. The Fund will also incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council website.

8.6 At the time of production of the ISS the Fund has not ~~issued a separate Statement of Compliance~~reported in line with the principles of the Stewardship Code, but fully endorses the principles embedded in the ~~Stewardship~~ Code. 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.

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

Appendix 1: Investment beliefs

1 Clear and well-defined objectives are essential to reflect the Funds long-term strategic direction of travel and to help build a plan for achieving these objectives.

2 The Fund and its liabilities are long-term in nature and the Committee supports long term investing as a means of enhancing returns, reducing transaction costs, encouraging improved governance and delivering stable contribution rates.

3 Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.

4 Diversification between asset classes and regions is expected to provide greater stability to investment returns whilst diversification over many different managers needs to be balanced against the Committee's governance budget.

5 Returns net of fees and costs are more important than the absolute level of fees although investment managers' fees should be transparent and reviewed regularly.

6 Active management can add value although the performance of active managers should be measured over a sufficiently long investment horizon.

7 Benchmarks matter, particularly where they dictate the manner in which assets are invested.

8 Environmental, Social and Governance factors can pose financially material risks and it is incumbent on investment managers, where they have the discretion to do so, to ensure that such risks are reflected in decision making

9 Effective stewardship through informed voting and engagement can positively influence corporate behaviours although success is most likely to be achieved through greater collaboration

10 Climate change and the expected transition to a low carbon economy represents a long-term financial risk to Fund outcomes and should be considered as part of the Committee's fiduciary duty.

11 Decision making can be improved through the greater disclosure of information and the Fund should both support and demonstrate high standards of disclosure.

12 Excluding assets from portfolios for non-financial reasons is unlikely to be appropriate in the majority of circumstances.

Appendix 2: Current manager benchmark allocations

Mandate	Manager	Allocation	Benchmark/Target
~~Equity~~Growth			
Global ~~equities~~Equity	LGIM	~~7.5~~5.0%	FTSE All World Index
~~Fundamental~~ Multi-Factor Equity	LGIM	~~7.5~~10.0%	FTSE ~~RAFI~~ All World ~~3000~~ ex. Controversial Weapons Climate Balanced Factor Index
Emerging Market Equity	LGIM	5.0%	FTSE Emerging Markets Index
Passive Equity Progressive Paris Aligned	LCIV	5.0%	S&P Developed Ex-Korea Large Mid Cap Net Zero 2050 Paris-Aligned ESG Index.
Global Alpha ~~g~~Growth Paris Aligned ~~equities~~Equity	LCIV	15.0%	MSCI ACWI + 2% p.a.
~~Multi Asset~~			
Absolute Return	LCIV	~~15.0~~12.5%	Preserve and grow capital (LIBOR +4% p.a.)
~~Diversified Growth~~	~~LCIV~~	~~12.5%~~	~~Bank Base Rate +3.5% (net)~~
~~Real Assets~~Income			
UK property	UBS GAM	6.0%	MSCI All Balanced Funds WA Index
Global property	CBRE GIP	4.0%	UK CPI + 5% p.a. (net of fees)
Infrastructure	Stafford Capital	3.5%	UK CPI + 5% p.a. (net of fees)
Infrastructure	JP Morgan	~~4.0~~5.5%	UK CPI + 5% p.a. (net of fees)
Renewable Infrastructure	LCIV	3.5%	UK CPI + 5% p.a. (net of fees)
Multi Asset Credit	Royal London AM	7.5%	LIBOR +4% p.a.
Investment Grade Credit	LCIV	5.0%	Barclays Aggregate – Credit Index Hedged (GBP) Index
Private Debt	Churchill	3.0%	LIBOR +4% p.a.
Private Debt	Permira	4.5%	LIBOR +4% p.a.
~~Bonds~~Protection			
Index Linked Gilts	Royal London AM	5.0%	Over 5 year index linked gilts index
~~Multi Asset Credit~~	~~Royal London AM~~	~~7.5%~~	~~LIBOR +4% p.a.~~
~~Private Debt~~	~~Churchill~~	~~3.0%~~	~~LIBOR +4% p.a.~~
~~Private Debt~~	~~Permira~~	~~4.5%~~	~~LIBOR +4% p.a.~~

Note that the table includes ongoing mandates only.

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Investment Strategy Statement

1. Introduction and background

1.1 This is the Investment Strategy Statement ("ISS") of the London Borough of Havering Pension Fund ("the Fund"), which is administered by Havering Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

1.2 The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP and having regard to guidance issued by the Department for Levelling Up, Housing and Communities ("DLUHC"). The Committee acts on the delegated authority of the Administering Authority.

1.3 In order to guide the ongoing development of its investment strategy, the Committee has considered and agreed a series of investment beliefs. These beliefs are set out in Appendix 1.

1.4 The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

1.5 The Committee seeks to invest, in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (dated April 2023).

1.6 The ISS was approved by the Committee on 12 September 2023.

2. The suitability of particular investments and types of investments

2.1 The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the Local Government Pension Scheme. Against this background, the Fund's approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

2.2 The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

2.3 The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed, but will take account of future salary and/or inflation increases.

2.4 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. 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. This approach helps 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), together with the level of disclosed surplus or deficit (relative to the funding bases used).

2.5 It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

2.6 Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. For direct investments, an Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions. For pooled vehicles, appropriate governing documentation is in place for each pooled fund.

2.7 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile;
- The level of expected risk;
- Outlook for asset returns.

2.8 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Committee has adopted a rebalancing policy which is triggered if the Fund's asset allocation deviates by 5% or more from the strategic allocation.

2.9 In order to avoid excessive rebalancing, the assets will not be brought back to the absolute strategic benchmark, but to a position that is approximately halfway between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.

2.10 If rebalancing is triggered, the assets will be rebalanced back to within 2.5% of the strategic asset allocation.

2.11 In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Pensions Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweight assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

3 Investment of money in a wide variety of investments

Asset classes

3.1 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.

3.2 The Committee reviews the nature of the Fund's investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

3.3 The Fund's target investment strategy is set out in Table 1 below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority'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 that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Fund allocation

Asset class	Benchmark Proportion %	Maximum %
Global Equity	40.0	50.0
Multi Asset	12.5	17.5
Property	10.0	15.0
Infrastructure	12.5	17.5
Bonds & Cash	25.0	30.0
Total	100.0	

3.4 At 30 June 2023, the expected return of this portfolio over a 20-year time horizon was 7.8% p.a. with an expected volatility of 13.3% p.a. This volatility includes an assumed diversification benefit. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Managers

3.5 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

3.6 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The current manager benchmarks are set out in Appendix 2 to this Statement. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects the composition of their respective benchmark indices.

4 Risk management

4.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

4.2 The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

4.3 Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement ("FSS") is prepared every three years as part of the triennial valuation and the Committee monitors the Fund's investment strategy and performance relative to the growth in the liabilities at mid-cycle to the triennial valuation. The following key risks have been identified:

- **Financial mismatch**: The Committee recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate the risk an investment strategy is set which provides exposure to assets providing inflation protected growth as well as cash flow generating assets that match the Fund's liabilities.

- **Changing demographics**: This relates to the uncertainty around longevity. The Council recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

- **Systemic risk**: The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

4.4 The Committee measures and manages financial mismatch 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 which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2025 valuation process. 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 returns relative to a strategic benchmark. The current strategic benchmark is the return on index-linked Government bonds plus 1.7% per annum, which is consistent with the discount rate used by the Actuary as part of the 2022 actuarial valuation to value the Fund's liabilities.

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

4.6 The Committee seeks to mitigate systemic risk through a diversified portfolio but recognises that it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

4.7 The Committee recognises that the Fund's investments are exposed to a range of asset specific risks which include:

- **Concentration risk**: This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Committee attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly and following a regular fund manager review process. The Fund's investment in multi-asset and absolute return mandates increases diversification further, with investment managers able to invest across the full spectrum of the investment universe in order to manage risk.

- **Liquidity risk**: Investments are held until such time as they are required to fund payment of pensions. The liquidity risk is being very closely monitored as the Fund matures (i.e. as the level of benefit outgo increases relative to the contributions received by the Fund). The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

- **Currency risk**: The strategic asset allocation adopted by the Committee provides for an element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance.

- **Environmental, social and governance ("ESG") risks**: The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

- **Manager risk**: Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Committee when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.

- **Climate risk**: The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

4.8 The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. 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.

4.9 The Committee has chosen to manage currency risk as follows:

- Within equity mandates, the Committee has chosen to retain currency risk unhedged.

- Within multi-asset mandates, the managers employed have discretion to make use of currency exposure as a source of potential return although are mandated to deliver returns relative to a sterling objective. The Committee is therefore satisfied that currency risk is managed within these mandates but monitors currency exposures.

- Within real asset and private debt mandates, where overseas currency exposure arises, the Committee has chosen to hedge 100% of such currency exposure (subject to de minimis limits) given the expectation that income is a primary driver of return.

4.10 The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing a number of managers and making use of passive investment. The Committee assesses the investment managers’ performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

4.11 Details of the Fund’s approach to managing ESG and climate risks are set out later in this document.

Other provider risks

4.12 The Committee recognises that investment risk arises in the operational management of the Fund and have identified the following major risks:

- **Transition risk**: The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

- **Custody risk**: The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- **Credit default**: This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. Where appropriate, the Committee has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk.

- **Stock-lending risk**: The possibility of default and loss of economic rights to Fund assets.

4.13 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

4.14 A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

5 The approach to pooling

5.1 The Fund is a shareholder and a participating scheme in the London CIV Pool. The London CIV is authorised by the FCA 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 Pool will operate was set out in the July 2016 submission to Government.

5.2 The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the 2016 submission to Government. The key criteria for assessment of Pool solutions is as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

5.3 At the time of preparing this statement, 61.0% of the Fund's assets were invested through the Pool or through passive vehicles facilitated by the Pool as set out in Table 2 below:

Table 2: Pool allocations

Asset class	Invested through pool %	Retained outside pool %
Global Equity	40.0	-
Multi Asset	12.5	-
Property	-	10.0
Infrastructure	3.5	9.0
Bonds & Cash	5.0	20.0
Total	**61.0**	**39.0**

5.4 The Fund has committed 7.5% of its assets to private debt mandates that were procured on a collaborative basis in conjunction with other London LGPS funds. Further, 5.5% of assets are invested in an infrastructure fund where all LGPS investors are treated collectively.

5.5 The Fund holds 22.5% of the Fund in property and infrastructure assets and 19.0% of these (which includes the infrastructure allocation noted above) will remain outside of the London CIV pool as the cost of exiting these strategies would have a negative financial impact on the Fund. These will be held until such time as a cost-effective means of transfer to the Pool is available or until the Fund changes asset allocation and makes a decision to disinvest.

5.6 Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

6 Approach to responsible investment including climate change considerations

6.1 It is recognised that a range of factors, including ESG factors, can influence the return from investments. The Fund will therefore invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including ESG factors to the extent these directly or indirectly impact on financial risk and return. In making investment decisions, the Fund seeks and receives proper advice from internal officers and external advisers with the requisite knowledge and skills.

6.2 The Fund recognises that climate change is a systemic risk with the potential to directly impact economic, financial and social systems. The Fund has developed a climate policy which sets out its long-term ambitions in addressing climate risk and the actions that the Fund will take to decarbonise its investment strategy and better align its investments with the transition to a low carbon economy.

6.3 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, climate and ethical considerations, into the decision-making process for all fund investments. Within passive mandates where the choice of index dictates the assets held by the investment manager and the manager has minimal freedom to take account of factors that may be deemed to be financially material, the Fund will review the index benchmarks employed for the Scheme on at least a triennial basis.

6.4 The Fund 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. As a minimum, the Fund expects its managers (including the London CIV) to be signatories of the UN supported Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code. The Fund will periodically review its managers' reporting against these standards, as well as other relevant industry standards, and will challenge its managers to improve their practices where the Fund deems it appropriate to do so.

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 underlying investments with regard to the 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 will engage with its managers to understand what actions have been taken during regular review meetings.

6.6 Whilst the Fund expects that manager appointments in respect of new investments will be made through the London CIV, where the Fund makes its own appointments, responsible investment considerations will form a component of the manager selection decisions. The Fund will also encourage the London CIV to adopt best practice standards in the evaluation and monitoring of managers employed for investment.

6.7 Effective monitoring and identification of ESG 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. Where appropriate, the Fund will work with the London CIV to promote collective engagement on behalf of all investors.

6.8 The Fund monitors the activity of its investment managers on an ongoing basis and will review the approach taken annually.

7 Consideration of non-financial factors and social investments

7.1 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee will review its approach to non-financial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

7.2 The Committee understands the Fund is not currently 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.

7.3 The Fund does not at the time of preparing this statement hold any assets which it deems to be explicit social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

8 Stewardship of assets

8.1 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.

8.2 The Fund recognises that its equity assets are invested in pooled vehicles, it remains subject to the voting policies of the managers of these vehicles:

- Investments through the London CIV are covered by the voting policy of the LCIV which has been agreed by the Pensions Sectoral Joint Committee.
- In respect of Fund investments outside the London CIV, the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

8.3 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 their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitors the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.

8.4 The Committee will request its investment managers provide details of any change in policy on an annual basis. The Committee will review these changes and, where necessary, will challenge managers to explain the reasoning for any change.

8.5 The Committee reviews voting activity by its investment managers on an annual basis and may also periodically review managers' voting patterns. The Committee will challenge its managers to explain voting decisions on certain issues, particularly with regard to climate risk disclosure. The Fund will also incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council website.

8.6 At the time of production of the ISS the Fund has not reported in line with the principles of the Stewardship Code, but fully endorses the principles embedded in the Code. 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.

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

Appendix 1: Investment beliefs

1 Clear and well-defined objectives are essential to reflect the Funds long-term strategic direction of travel and to help build a plan for achieving these objectives.

2 The Fund and its liabilities are long-term in nature and the Committee supports long term investing as a means of enhancing returns, reducing transaction costs, encouraging improved governance and delivering stable contribution rates.

3 Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.

4 Diversification between asset classes and regions is expected to provide greater stability to investment returns whilst diversification over many different managers needs to be balanced against the Committee's governance budget.

5 Returns net of fees and costs are more important than the absolute level of fees although investment managers' fees should be transparent and reviewed regularly.

6 Active management can add value although the performance of active managers should be measured over a sufficiently long investment horizon.

7 Benchmarks matter, particularly where they dictate the manner in which assets are invested.

8 Environmental, Social and Governance factors can pose financially material risks and it is incumbent on investment managers, where they have the discretion to do so, to ensure that such risks are reflected in decision making

9 Effective stewardship through informed voting and engagement can positively influence corporate behaviours although success is most likely to be achieved through greater collaboration

10 Climate change and the expected transition to a low carbon economy represents a long-term financial risk to Fund outcomes and should be considered as part of the Committee's fiduciary duty.

11 Decision making can be improved through the greater disclosure of information and the Fund should both support and demonstrate high standards of disclosure.

12 Excluding assets from portfolios for non-financial reasons is unlikely to be appropriate in the majority of circumstances.

Appendix 2: Current manager benchmark allocations

Mandate	Manager	Allocation	Benchmark/Target
Growth			
Global Equity	LGIM	5.0%	FTSE All World Index
Multi-Factor Equity	LGIM	10.0%	FTSE All World ex. Controversial Weapons Climate Balanced Factor Index
Emerging Market Equity	LGIM	5.0%	FTSE Emerging Markets Index
Passive Equity Progressive Paris Aligned	LCIV	5.0%	S&P Developed Ex-Korea Large Mid Cap Net Zero 2050 Paris-Aligned ESG Index.
Global Alpha Growth Paris Aligned Equity	LCIV	15.0%	MSCI ACWI + 2% p.a.
Absolute Return	LCIV	12.5%	Preserve and grow capital (LIBOR +4% p.a.)
Income			
UK property	UBS GAM	6.0%	MSCI All Balanced Funds WA Index
Global property	CBRE GIP	4.0%	UK CPI + 5% p.a. (net of fees)
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Investment Grade Credit	LCIV	5.0%	Barclays Aggregate – Credit Index Hedged (GBP) Index
Private Debt	Churchill	3.0%	LIBOR +4% p.a.
Private Debt	Permira	4.5%	LIBOR +4% p.a.
Protection			
Index Linked Gilts	Royal London AM	5.0%	Over 5 year index linked gilts index

Note that the table includes ongoing mandates only.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
1. Effective decision-making **Administrating authorities should ensure that :**		**SUMMARY: FULLY COMPLIANT**
(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and **(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest**	1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned.	A designated group of elected members, reflecting the political balance of the Council, have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2).
	2) Roles of the officers with responsibility for ensuring the proper running of the administration authority's and the committee's business should be set out clearly. The rules drawn up should provide a framework for the committee's code of business and include a process for the declaration of conflicts of interest.	Roles of the officers with responsibility for the day to day running of the administering authority's and the committee's business is specified in the Council's constitution (Part 3). Declarations of interests are considered at the start of each committee meeting.
	3) The committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers and/or external investment managers.	The Pensions Committee is governed by specific terms of reference and is specified in the Council's constitution (Part 3), officer functions are also specified (Part 3).
	4) The process of delegation should be described in the constitution and record delegated powers relating to the committee. This should be shown in a public document, such as the statement of investment principles (superceded by the Investment Strategy Statement (ISS).	The delegation process for the day to day running of the pension scheme is specified in the Council's constitution (Part 3). The Council's constitution is available via the Council's website:www.havering.gov.uk, follow links council and democracy and council, select constitution, select view our constitution or select the link below. havering.gov.uk our constitution
	5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified.	Roles of members, officers, external advisors and managers are no longer required to be specified in the ISS but these are included within the Funds Annual Report
	6) Where possible, appointments to the committee should be based on consideration of relevant skills, experience and continuity.	Where possible, appointments made to the committee are based on consideration of relevant skills, experience and continuity.
	7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoptation of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made.	Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking Business Plan for the fund. Forward looking Business Plan is presented at the Pensions Committee meeting annually and training undertaken is reported in the Pension Fund Annual Report. Members are requested to complete the CIPFA's Knowledge and Skills self assessment of training needs and the Fund has commissioned Hymans LGPS Online Learning Academy (LOLA), which is mandatory for members to complete . Following the establishment of a Local Pension Board (LPB) a joint training strategy was developed that incorporates training of Pension Committee members with LPB members, where appropriate.
	8) The committee review its structure and composition regularly and provide each member with a handbook containing committee's terms of reference, standing orders and operational procedures. It is good practice to establish an investment or other subcommittee to provide focus on a range of issues.	Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate knowledge continuity and helps to maintains expertise within the committee. Elected members are aware of their their roles and responsibilities.
	9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings.	The committee has not established any subcommittees as the Pensions Committee focuses only on the activities of the Pension Fund. The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations.
	10) The committee should obtain proper advice from suitably qualified persons, including officers. The CFO should assess the need for proper advice and recommend to the committee when such advice is necessary from an external advisor. The committee should ensure that it has sufficient internal and external resources to carry out its responsibilities effectively.	The Pensions Committee has appointed two advisors – Investment advisor and Actuarial advisor. The Pension Fund Manager (Finance) provides in house support to members. The Pension Committee is also supported by the Statutory Section 151 and the Council's Pension administration and payroll services. Internal and external resources are considered as part of the Business Plan
	11) Allowances paid to elected members should be set out in a published allowances scheme and reviewed regularly.	Members of the Pensions Committee expenses are reimbursed in line with the Council's constitution (Part 6 -'Members Allowance Scheme')
	12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings.	Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of a publicly elected body.
	13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting.	Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receives agendas five working days prior to meeting date.
	14) The **CFO** should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the Business Plan.
	15) The CFO should ensure that a medium term Business Plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The Business Plan should be submitted to the committee for consideration.	The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The Business Plan also incorporates the training plan.
	16) Business Plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The Business Plan includes the outcome of an internal review of resources, when appropriate.
	17) Administrating Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship .	The Pension Fund prepares, publishes and maintains a Governance compliance statement which shows the extent to which the administrating authority complies with the principles and is reviewed annually.
	18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is included within the Annual Report and is available on the Council's website: www.havering.gov.uk, select finance,pensions and data, then select Havering Pension page or select the link to the pensions page below. Havering Pensions page
	19) The fund's Administration Strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities.	The Administration Strategy is available on the Council's website: www.havering.gov.uk, select finance,pensions and data, then select Havering Pension page or select the link to the pensions page below. Havering Pensions page
2. Clear objectives		**SUMMARY: FULLY COMPLIANT**

(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
	4) with the **CFO** need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS) and can be found on the Councils website: www.havering.gov.uk, select finance,pensions and data, then select Havering Pension page or select the link to the pensions page below. Havering Pensions page
	5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members.	The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment strategy currently includes a mix of different asset classes which are managed actively and passively
	6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administrating authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administrating authorities own procurement rules. The Fund had adopted the format as set out in the Pensions Regulator "trustee guide to:setting objectives for investment consultancy services" to comply with CMA "order" 2019. Service review is undertaken and reported to the committee annually, last review presented to the Pensions Committee on the 13 December 2022
	7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	After full consultation with the Council's Actuary and Investment advisors a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	The Pensions Committee commission the Fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	All asset classes are considered as part of the investment strategy review process and the range of investments are included in the Fund's ISS
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled.	Transaction costs are disclosed in the statement of accounts. All of the Funds' managers have signed up to Scheme Advisory Board Cost Transparancy Initative (CTI) and the Fund receives CTI reports either quaterly, annually or both.
	11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Understanding transaction costs are considered and where appropriate expert advice would be sought. Costs are considered in the decision making process when any changes to the investment strategy are under discussion.
	12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The committee uses the services of Northern Trust for monitoring of performance against benchmarks and use the services provided by Pensions & Investment Research Consultants (PIRC) for peer group comparison purposes.
3. Risk and liabilities		**SUMMARY: FULLY COMPLIANT**
a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. **b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.**	The committee should:	
	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	An investment strategy review was carried out following the actuarial valuation results in 2022. The Fund has formulated its own asset allocations based on identified liabilities particular to the fund. The Fund's investment strategy was adopted having considered the members attitude to risks and these risks are identified within the ISS and FSS.
	2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	
	3) consider the extent to which the cash flow from the fund's assets should attempt to match the liabilities and the relevant timing. It should also consider the volatility of returns it is prepared to accept.	
	4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years	The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's ISS.
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	
	6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it.	Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis.

	7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the **CFO** should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	The Fund receives a risk assessment as part of the Valuation process with full consultation of the Fund's Actuary. Performance is monitored and reported to the committee on a quarterly basis and includes recommendations for action where appropriate. Liabilities are considered as part of the triennial valuations and mid valuations, however cash flow is monitored monthly and reported to committee quarterly.
	8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance.	
	9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the **CFO.**	The external auditors opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken as required by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Investment Manager Audited Internal Control reports are received and checked by officers for matters of concerns.
	10) The fund's Statement of Investment Principles (now ISS) should include a description of the risk assessment framework used for potential and existing investments.	The Pension Fund's ISS includes a description of the risk assessment framework.
	11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling.
	12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.	The Pension Fund Annual Report includes an overall risk assessment in relation to each of the fund's activities and includes a copy of the Risk Register. The Risk Register is designed to be a living document and is included as a standing item on the Fund's Local Pension Board Agenda. It is reported periodically to the Pensions Committee.
4. Performance assessment	**Investments**	**SUMMARY: FULLY COMPLIANT**
a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors **b) 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**	The committee should:	
	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	As part of any investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the Fund's investment advisor, it considered and has adopted active and passive management and appropriate targets and risk controls set.
	2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies	Benchmarks are set in agreement with the fund's investment manager (s)
	3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.	
	4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors.	Performance monitoring reports are presented to the committee quarterly and cover the latest quarter, rolling one year and three year performance. In line with the reporting cycle, the Committee will see one fund manager at each meeting unless there are performance concerns for individual mangers. Where appropriate Fund managers will report tracking errors.
	5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile.	The asset /liability profile is considered at each triennial valuation.
	6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	Included within the officer quartrly moitoring reprots, the investment advisor monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee - return is measured quarterly in terms of the overall financial objective.
	7) Returns should be obtained from specialist performance agencies independent of the fund managers.	The Pension Fund uses the services ofNorthern Trust who report against the overall fund and individual manager returns on a quarterly basis. Performance returns are monitored against fund manager returns and discrepancies are investigated. The Fund also uses the Services of PIRC to provide LGPS universe comparisons.
	8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency.	Each quarter, Northern Trust measure fund manager returns against their set benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the performance report.
	9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc.).	The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.
	10) The use of peer group benchmarks (such has CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.	PIRC performance returns against peer group benchmarks are used for comparison purposes only.
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.
	Advisors	

	12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee. Objectives for the Investment consultant have now been formulated to be in line with the Competition and Markets Authority (CMA) Order 2019.
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	
	14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes.	
	15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members	
	Decision-making bodies 16) The process of self assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;	Pensions Committee performance is reviewed as part of the Business plan Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the committee, and full compliance with governance requirements including training. The business plan includes an indiciative work plan and the committee achievements agaisnt the plan
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	
	18) The committee should set out its expectations of its own performance in its Business Plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:	The Business Plan sets out the expectations of the committee.
	19) attainment of standards set down in CIPFA's knowledge and skills framework and code of practice; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.	Achievement of training outcomes are self assessed by the Pensions Committee. The Fund has also adopted Hymans LGPS Online Learning Academy (LOLA), learning modules are aligned to the CIPFA KSF and the Fund has made it mandtory for members to complete and progress is measurable against the CIPFA KSF. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievement of administrative targets are reported in the Pension Fund Annual report
	20) This assessment should be included in the fund's Annual Report.	The assessment of the committee expectations and training are included in the Business Plan and Annual Report
5. Responsible ownership **Administrating authorities should:**		**SUMMARY: PARTIALLY COMPLIANT**
a) recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code **b) include a statement of their policy on responsible ownership in the statement of investment principles (now ISS)** **c) report periodically to scheme members on the discharge of such responsibilities.**	1) Policies regarding responsible ownership must be disclosed in the statement of investment principles (now ISS) which must be contained the annual report.	Policies on Social Environmental and ethical considerations are disclosed in the ISS, a copy of which is also included in the Pension Fund Annual Report.
	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that the funds investment managers to integrate all material financial factors into the decision making process for fund investments.
	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	On the 19 March 2019 the Pensions Committee established and published a Statement of investment Beliefs which reflects the broad views of committee members in regard to ESG .Over the long term, the Pensions Committee requires the investment managers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. The Fund are members of LAPFF
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF	
	5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager.	The ISS is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.
	6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken	Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Fund Managers report voting activity quarterly and made available for the Pensions Committee to review.
	7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.
	8) The committee should engage with, and consider the implications of, the UK Stewardship Code on a comply or explain basis	Whilst the Fund is not signatories to the Stewardship Code , the Committee fully endorses the principles laid down in the UK Stewardship Code
	9) The committee should also ensure that external partners in the investment chain (advisors, consultants, investment mangers, etc.) adopt the UK Stewardship Code insofar as it relates to their activities on behalf of the fund.	Becoming a signatory of the The UK Stewardship Code 2020 is voluntarily and directed to institutional investors (asset owners and asset managers with equity holdings in UK listed companies). 5 out of 9 non pool and 6 out of 8 sub fund pool managers have met the requirements of the Stewardship Code 2020. The Fund's advisor, actuary and custodian are also sugnatories .The Fund will continue to monitor and explore the rationale of any managers not yet signed up.
	10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the six principles and regularly assess themselves against a comply or explain framework.	The UNPRI is voluntary and applies on a comply or explain basis. All of the fund's asset managers have adopted the code.
6. Transparency and reporting **Administrating authorities should:**	The committee should:	**SUMMARY: FULLY COMPLIANT**

a) 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 **b) provide regular communication to scheme members in the form they consider most appropriate.**	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non- compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on a regular basis. Any non-compliance is reported and necessary actions included.
	2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted.	The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters.
	3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	The work of the Pensions Committee is publicly available on the Councils website at www.havering.gov.uk, follow links for council & democracy, council committees, then pension committee. There is also a dedicated page on the Council's website for the Pension Fund under the page for council and democracy. How the work is communicated to its stakeholders is included in the fund's Communication Strategy, select link below to see the pensions page on the councils website Havering Pensions page
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London Boroughs at www.yourpension.org.uk. Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	The Pension Fund Annual Report is prepared in accordance with Regulation 57 of the LGPS Regulations 2013 which applied from 1 April 2014. It is also prepared in accordance with guidance published by CIPFA/PRAG 2019 edition.
	6) The Funding Strategy (FSS) , the Statement of Investment Principles (SIP) (now ISS) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks.	The FSS, the ISS and the Governance Compliance Statement are available on the Council's website at www.havering.gov.uk,select finance pension & data, select pension page or select the link below. This page also includes the Pension Fund's Communication Strategy. Where applicable reference to all these documents is made in other publications Havering Pensions page
	With regard to the FSS and SIP (now ISS), they should: 7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorum or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications	The policies shows the delegation process and the roles of officers, members, external advisors and how managers are differentiated; the process by which the fund allocation has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control.
	With regard to the Governance Compliance Statement it must include:	
	8) information on whether administrating authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights.	The Governance Compliance Statement includes information on the administering authorities delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with Department of Levelling Up, Housing & Communities (DLUHC) formerly (DCLG & MHCLG).
	With regard to the fund's Communication Strategy it must:	
	10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities	The Communication Statement includes: the administrating authorities policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 12 September 2023

Subject Heading:	**INVESTMENT STRATEGY UPDATE – LCIV GLOBAL BOND FUND**
CLT Lead:	**Kathy Freeman**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager (Finance)** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 requires an administrative authority to periodically review the Investment Strategy Statement
Financial summary:	Implementation of the investment strategy will be met from restructuring existing mandates

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This Committee at its meeting held on 21 March 2023 agreed the Investment Advisor's (Hymans) recommendations set out in Appendix A (Exempt) of Item 9 Investment Strategy update report. This included a recommendation to make a 5% allocation (c£45m) to investment grade credit funded from divestment from the LCIV Diversified Growth fund and implement this strategy through investment into the LCIV Global Bond fund subject to Hymans carrying out a further review on its suitability. Hymans have now completed their assessment of the LCIV Global Bond sub-fund and consider it to be a suitable investment that provides diversified exposure across global bond markets and as such recommend the Committee agree to invest the Investment Grade Credit exposure in the sub-fund.

Appendix A of this report is exempt from publication by virtue of paragraph 3 and 5 of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended as it contains information relating to the financial or business affairs of the investment managers already appointed to the Fund.

RECOMMENDATIONS

That the Committee is asked to agree the implementation of a 5% allocation to investment grade credit assets via the LCIV Global Bond Fund.

REPORT DETAIL

1. Background

a) Following the Fund's Actuarial valuation as at 31 March 2022 a review of the current Investment Strategy Statement was carried out to ensure that it remained appropriate to meet its long term objectives, this being to ensure that the assets are invested to secure funding for member's benefits.

b) Officers discussed the outcome of this review at a meeting in October 2022 in which it was acknowledged a tilt towards "increased income" investments was necessary in any review of investment strategy and this was progressed further at a meeting with Hymans held in February 2023.

c) Hymans, subsequently produced the Investment Strategy Considerations paper, which was agreed at the Pensions Committee meeting on the 21 March 2023. Included within those recommendations was to complete a review of the LCIV Global Credit Fund as a potential vehicle for the allocation to Investment Grade Credit.

d) Hymans provided officers with a product assurance note in June 2023, containing an evaluation of the LCIV Global Bond sub fund and a summary of their assessment, review and conclusions, confirming that the LCIV Global Bond Fund as a suitable investment for the Fund.

e) Training was provided to members of the committee held on 12 September 2023 to gain an understanding of the Investment Grade bond asset class and the suitability of the proposed investment in the LCIV Global Bond Fund.

f) Appendix A to this report sets out a recommendation to invest in the LCIV Global Bond sub fund and how this will be funded.

IMPLICATIONS AND RISKS

Financial implications and risks:

Any changes made to the asset allocation will be funded from reducing or reallocating of assets within existing mandates held by the Fund.

A 5% commitment to invest in the LCIV Global Bond fund equates to c£45m. This will be funded from a full redemption in the LCIV Diversified Growth Fund (DGF) (value as at June 23 £65m). A full redemption will fund the investment in the LCIV Global Bond Fund and the increase allocation to infrastructure assets agreed at the Pensions Committee meeting held on 12 July 2023.

The proposed mandate requires that the LCIV Global Bond fund outperform the Bloomberg Global Aggregate Credit Index – GBP Hedged over a 3-year rolling period (net of fees).

There are other London LGPS Funds invested in the LCIV Global Bond fund sub fund totalling c.£700m.

Hymans have expressed confidence in LCIV's process for monitoring Environmental, Social and Governance (ESG) considerations of their underlying managers and see the evolution of the LCIV Global Bond sub-fund to incorporate ESG as a positive development, aligned with the LCIV's overall Responsible Investment aspirations.

The estimated costs of transitioning DGF assets to the LCIV Global Bond fund comprise of:

- Advisory costs: The advisory costs of implementing changes made to the investment strategy will be incurred through the Investment Management consultancy services contract with Hymans. The costs incurred to date is £0.011m, this includes costs for the product assurance note, training and further advice.

- Transaction costs – The estimated transaction costs for the disinvestment from the LCIV DGF and subsequent investment into the LCIV Global Bond Sub-Fund to fund the proposed 5.0% allocation is c.£0.178m (c.0.4% of the GBP transition amount).

Costs arising from the implementation of the investment strategy will be met from the Pension Fund.

Legal implications and risks:

None directly arising from this report

Human Resources implications and risks:

None arise directly from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected
None arising directly.

BACKGROUND PAPERS

None

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 12 September 2023

Subject Heading:	**TASKFORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES – Report for year ending 31 March 2023**
CLT Lead:	**Kathy Freeman**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	**Management of climate risks**
Financial summary:	**Estimated cost £3,500 for the report**

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

Appendix A to this report summarises the Funds current position concerning the 11 climate-related disclosures under the scope of the Taskforce on Climate-related Financial Disclosures (TCFD), for the year ending 31 March 2023.

RECOMMENDATIONS

That the Committee:

agree the 31 March 2023 TCFD report as attached as **Appendix A.**

REPORT DETAIL

1. The Fund's Investment consultant (Hymans) have set out a summary of the Fund's current position with regards to the 11 climate-related disclosures under the scope of the TCFD framework for the year ending 31 March 2023, as attached at Appendix A

2. **BACKGROUND**

   a. The TCFD was established in 2015 by the Financial Stability Board at the request of G20, to review how the financial reporting on climate-related issues could be improved. In June 2017, the TCFD published its final recommendations providing a framework against which to report on their climate-related risks and opportunities.

   b. TCFD reporting is structured around four themes, **Governance, Strategy, Risk Management** and **Metrics and Targets.** Across these four themes, there are 11 disclosures.

   c. The United Kingdom has announced its intention to make TCFD aligned disclosures mandatory by 2025.

   d. The Department of Levelling Up, Housing and Communities (DLUHC) issued a consultation *Local Government Pension Scheme (LGPS): Governance and reporting of climate change risks,* which closed in November 2022. This consultation follows the TCFD framework setting out how to report against the four key areas of governance.

   e. The consultation proposed that regulations will apply to all LGPS Administering Authorities with the first reporting year covering the financial year 2023/24, with the first report published by December 2024.

   f. On the 15 June 2023, DLUHC have confirmed that implementation of climate reporting obligations would be delayed at least until next year. Presuming regulations are forthcoming in time for 1st April 2024, reports covering the period 1 April 2024 - 31 March 2025 would need to be produced by December 2025.

g. In the meantime, the Responsible Investment Advisory Group (RIAG) (within the Scheme Advisory Board would look at what advice could be given to funds wishing to do a shadow reporting year, and also what could be done to standardise the development of climate reporting approaches at the pool level.

h. Whilst it is not yet mandatory for the LGPS to produce a TCFD report the Committee are keen to comply with these requirements and opted for an early adoption. This is the Fund's third report under the TCFD framework, summarising the current position across the 11 disclosures. Future reports will continue to highlight actions taken over the year to improve the position in line with suggested actions developed as a result of this report and underlying analysis.

i. The 2023 report will be published as a standalone document.

j. The Committee had not formally adopted any climate related metrics for management of the Fund for the year ending March 2023, so there is no data reported against the disclosure on targets under the theme for Metrics and Targets.

k. The Committee agreed targets at its meeting on the 12 July 2023 and performance against these targets will be covered in future reports.

IMPLICATIONS AND RISKS

Financial implications and risks:

The Committee believe that climate change is a systemic risk and seek to manage that risk on behalf of their members. The Committee are supportive of initiatives they believe will in the long-term financial interest of the Fund's members. Early adoption of the TCFD is one such initiative, as greater disclosure will lead to engagement and a more structured approach to managing this risk.

Early planning will also help with speedy compliance of TCFD guidance once published by DLUHC. The DLUHC are still considering feedback to the consultation and no timelines have been made available as to when the regulations and guidance will be published.

Climate rated risks are incorporated within the Funding Strategy Statement (FSS) and the 2022 Valuation report. These risks will be similar to the TCFD report, and it includes how risks have been considered when setting the FSS and employer contribution rates.

The cost of producing this report will cost £3,500 and will be met from the Pension Fund.

Legal implications and risks:

None arising directly from consideration of the content of the Report.

Human Resources implications and risks:

There are no immediate HR implications.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

Climate disclosures for the year ended 31 March 2023

The Pensions Committee ("the Committee") of the London Borough of Havering Pension Fund ("the Fund") believe that climate change is a systemic risk and seek to manage that risk with respect to the pension scheme on behalf of their members. The Committee are supportive of initiatives they believe will be in the long-term financial interest of the Fund's member and believe greater disclosure will lead to more engagement and a more structured approach to managing this risk.

The Committee has prepared this report, their third such report, setting out their approach to managing climate related risks in line with the TCFD disclosure framework. As with previous reports, the Committee has taken a proportionate approach to reporting recognising the size and available resources of the Fund. Future reports will continue to highlight actions taken over the year to improve the position in line with the suggested actions developed as a result of this report and underlying analysis. The Committee also recognises that DLUHC has consulted on the adoption of TCFD reporting within the LGPS and will comply with the reporting requirements when these are finalised. A response was submitted to this consultation on behalf of the Committee.

Governance

Disclosure A: Describe the Committee's oversight of climate related risks and opportunities.

The Committee has ultimate responsibility for the strategy employed to meet the Fund's objectives. These objectives and strategy are set out in the current Investment Strategy Statement (ISS), this having been updated following the year-end to reflect changes in strategy agreed during the year. In the development and implementation of strategy, the Fund is supported by Officers and Advisers who the Committee expect to raise climate related risks and opportunities for discussion as appropriate.

The Committee has established and published a Statement of Investment Beliefs which reflects the broad views of members on investment, ESG and climate matters. These beliefs are documented in the ISS and include recognition of the financial materiality of climate risk. The Committee did not review their beliefs during the year to 31 March 2023 but expects Officers and Advisers to reference these beliefs in the management and evolution of the Fund. Beliefs did drive various strategic changes during the year as summarised later in this report.

Committee members are expected to undertake training on all matters relevant to the governance of the Fund. In March 2023, Committee members completed an education session on climate metrics, as scheduled in the Fund's Climate Risk Management Plan. The session provided information on different approaches to the measurement of climate risk exposures with the acknowledgement of potential TCFD reporting requirements. The session also provided background on the availability, challenges and limitations of climate data, detail on 'core' and 'additional' climate metrics and potential areas of focus for the Fund, with respect to outlining an action plan for climate metric monitoring over time and setting associated targets. Finally, the session also included a baseline assessment for the Fund, allowing for recently available and more up to date climate data across the Fund's mandates.

The Committee also undertakes a high-level review of stewardship activity on an annual basis and considers the actions that its managers are taking to address climate risk within this review. In the review to 30 June 2022, it was highlighted that two of the Fund's investment managers had re-applied and had been successful in becoming signatories to the 2020 UK Stewardship Code – as such, all but a three of the Fund's investment managers had now been accepted as signatories to the 2020 UK Stewardship Code. As the UK Stewardship Code had been designed to be applicable to investment managers across all asset classes, the expectation is for all the Fund's investment managers to have an aspiration to become a signatory. A point was made to revisit this in 12 months' time, to further explore the rationale of any of the Fund's investment managers yet to become a signatory.

The voting and engagement activity of the two investment managers through which the Fund has equity exposure was also reviewed – LGIM voted directly on behalf of the Fund, whereas LCIV has put in place its own voting policy with support from Hermes EOS for the funds in which the Fund is invested: Baillie Gifford, Ruffer and State Street

(SSGA), these previously being voted directly by the managers. The Committee were satisfied that the vast majority of votes that were eligible to be exercised were voted on, that, on occasion, investment managers demonstrated preparedness to vote against company management and any undertaken engagement activity was in line with expectations. It was recommended at future Committee meetings, where LGIM or LCIV present, some focus be given to voting practices.

As part of the Committee developing the Fund's Climate Risk Plan over 2023, it was suggested stewardship activity be revisited and that the Committee consider how it could develop its approach to demanding accountability and scrutiny.

Disclosure B: Describe management's role in assessing and managing climate related risks and opportunities.

A number of parties involved in the management of the Fund are expected to assess climate related risks and opportunities and take steps to address these. In particular:

- Officers are expected to ensure that climate related issues are considered in their discussion with all Fund stakeholders. Over the year to 31 March 2023, Officers have engaged in discussions on climate related risks and opportunities with the Fund's investment managers, the London CIV as pooling provider and the Fund's investment advisers. Officers report the outcome of such discussions and any actions arising to the Committee for decision as necessary.
- The LCIV is the Fund's pooling provider with responsibility for the development of appropriate solutions for the management and governance of Fund assets. During previous years, LCIV has sought to develop and introduce several pooled vehicles which directly manage climate related risks for its clients. LCIV has also engaged third-party stewardship provider, Hermes EOS, to provide input on voting and engagement and a data provider, Trucost, to provide fund level analytics, including the measurement of climate related metrics.
- The Investment Adviser is expected to raise climate related risks and opportunities in the development and delivery of advice. During the year, the Fund's Investment Adviser considered the potential impacts of proposed investment strategy changes (i.e. the increased allocations to infrastructure and investment grade corporate bonds, funded from the LCIV Baillie Gifford DGF allocation) to the Fund's overall emissions/carbon metrics.
- Investment managers employed by the Fund are also expected to competently address climate related issues in their management of Fund issues. The Committee will ask questions of their managers on climate issues as part of regular meetings. The Committee, as a minimum, expect its managers (including the London CIV) to be signatories of the Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code.

Strategy

Disclosure A: Describe the climate related risks and opportunities the organisation has identified over the short, medium and long term.

The Committee has not formally specified time-horizons for the Fund although, given the Fund remains open to new members, the Committee regards climate risk as an issue that must be considered over all time horizons. Over the year, the Committee considered embedding climate risk management into the Fund via a climate policy and action plan. This was in accordance with the Committee's belief that "climate change and the expected transition to a low carbon economy represents a long-term financial risk to Fund outcomes and should be considered as part of the Committee's fiduciary duty."

Committee also agreed a plan of activity to take place over the course of 2023, including the framing of a long-term Net Zero ambition, the development of interim objectives and an associated climate action plan. Committee also agreed to increase climate related engagement with the Fund's investment managers.

Disclosure B: Describe the impact of climate–related risks and opportunities on the organisation's business, strategy and financial planning.

Whilst climate related issues have been reflected in certain investment decisions and the evolution of the Fund's strategy (such as the integration of climate-related risk considerations in the Fund's equity allocation), the Committee has not undertaken a stand-alone review of how climate risks and opportunities should be addressed. Rather, in conjunction with Officers and Advisers, the Committee has phased the consideration of climate-issues into its strategy and business planning. This process has been accelerated in 2023 with Committee agreeing a more complete programme of activity to address climate change.

In previous years, various changes were made to the Fund's equity portfolio and as a consequence, the Weighted Average Carbon Intensity ("WACI") of the Fund's equity assets reduced to 76% of that of global markets. Over 2023/24, the Committee will be reviewing its equity portfolio – noting the Fund's Emerging Market Equity exposure is a significant contributor to the Fund's overall WACI.

Over the year, the Committee established a baseline position of the Fund's climate metrics, considering each mandate's WACI, % ties with fossil fuels and exposure to green revenues/climate solutions. With this as the Fund's initial position, the Committee is able to determine which climate metrics, in consideration with TCFD reporting requirements, to monitor over time in order for the Fund to achieve its key climate targets and objectives.

Disclosure C: Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios including a 2 degree or lower scenario.

Climate scenario analysis was undertaken as part of the Fund's triennial actuarial valuation as at 31 March 2022 and shared with the Committee in October 2022. The analysis undertaken sought to stress-test outcomes from the asset-liability modelling undertaken as part of the actuarial valuation.

Three stressed scenarios were considered, all of which assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be. The stress test results are set out below:

Scenario	Likelihood of being fully funded in 20 years	Average of worst 5% of outcomes in 20 years
Core	67%	43%
Green revolution	68%	44%
Delayed transition	64%	41%
Head in the sand	61%	41%

The results are worse in the Delayed Transition and Head in the Sand scenarios. This is to be expected given the strategies seek to emphasise downside outcomes. Whilst the outcomes were lower under the stressed scenarios, they were not sufficiently material for Committee to make any adjustments to the Fund's high-level funding and investment strategy. However, the Committee did agree to make adjustments to their strategy to reduce exposure to multi-asset mandates, specifically the LCIV DGF, and increase exposure to infrastructure and investment grade bonds. The net effect of these changes is expected to be positive on the Funds assessment of Weighted Average Carbon Intensity.

Risk Management

Disclosure A: Describe the organisation's processes for identifying and assessing climate-related risks.

At a simple level, the Committee's risk management process comprises identification, assessment, monitoring and control of risk. Climate risks are identified by the Committee with support from Officers and Advisors as appropriate. Once risks are identified, they are then evaluated and prioritised based on the overall threat posed to the Fund. The Committee prioritise risks based on the size, scope and materiality of the risk event. This includes rating the likelihood and impact of the risk event to produce a score reflecting the threat that the risk event poses to the Fund, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action.

Disclosure B: Describe the organisation's process for managing climate-related risks.

Risks and opportunities are considered both in absolute terms and in relation to the risk appetite of the Fund. Risk appetite can be defined in terms of a willingness to take risk or the acceptability of risk. The management of climate related risks take place at several levels withing the decision-making processes of the Fund:

- Within strategy management, the Committee will consider market and policy developments with particular regard to climate change and discuss how such factors may influence asset allocation. The Committee has undertaken high level climate scenario analysis as part of the Fund's funding and investment strategy review.
- Within mandate selection, the Committee will consider how climate related risks may influence the design of a particular strategy, taking advice where appropriate. Committee has previously considered such factor in the implementation of its equity strategy.
- Within manager selection and ongoing monitoring, the Committee will consider the actions managers are taking to address climate related risks in the management of a mandate. This includes questioning the managers' approach to climate risk, stewardship, governance and its level of engagement with investee companies as a positive influence for ESG action. During the year, the Committee formally met with four of their investment managers, with discussion on climate related risks forming an element of these meetings. The Committee's process for reviewing managers incudes receiving a briefing on manager activity and areas for discussion being highlighted.
- Within stewardship, the Committee includes discussions on governance and voting with the Fund's equity manager on a periodic basis. The Committee reviews stewardship activity, including voting on climate issues, on an annual basis and the effectiveness of its managers in exercising the responsibilities that have been delegated to them. The Committee reviewed the Fund's investment managers' voting and engagement activities over the 12-month period to 30 June 2022. The Fund had investments through two investment managers (LGIM and LCIV) across seven mandates with equity exposure.

  Over the 12-month period, the majority of votes that were eligible to be exercised were voted on, on behalf of the Committee. Exercise rates for all seven mandates were at least 88%. Climate change was the most frequent reason for engagement across all managers. The Fund will undertake this review of voting and engagement activities again in 2023/24 for the last 12-month period.

Disclosure C: Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Officers and Advisors raise new or updated risks at quarterly Committee meetings or other appropriate points in time, depending on urgency. Following this, where appropriate, training sessions are provided on the respective risks. This includes rating the likelihood and impact of the risk event to produce a reflection of the threat that the risk event poses to the Fund and then making a decision on the appropriate action (mitigation, control or acceptance) based on this and available courses of action.

Metrics and Targets

Disclosure A: Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Committee has assessed the Fund's baseline position against a range of standard climate metrics, in particular:

- Emissions intensity is measured using Weighted Average Carbon Intensity (WACI)
- Exposure to potentially stranded assets is measured using % assets with ties to fossil fuels.
- Exposure to climate solutions considers both green revenue exposure and direct exposure to climate solutions.

The Committee expects to determine which of these climate metrics, in consideration with TCFD reporting requirements, to monitor over time in order for the Fund to achieve its key climate targets and objectives, as set out in the Climate Action Plan.

On an informal basis when considering individual investment solutions, the Committee considers a range of metrics as part of their initial discussions including WACI, carbon footprints, exposure to materially impacted sectors and stewardship behaviours of managers.

Disclosure B: Disclose Scope 1, Scope 2 and if appropriate Scope 3 greenhouse gas (GHG) emissions and the related risks.

Committee has collated data across the three metrics set out above as at 31 March 2022. These metrics have been averaged across all mandates within the portfolio and are set out below:

Mandate	WACI (tCO2e / £m revenue)	% of Portfolio with Fossil Fuel Ties	Exposure to Green Revenues / Climate Solutions
Equity	153	2%	2%
Multi-asset	339	15%	0%
Property	41	0%	n/a
Infrastructure	63	20%	33%
Bonds	132	5%	10%

**Asset class figures based on a weighted average of the underlying mandates for which data was available*

Climate metrics varied across the Fund's mandates. The LCIV DGF has the highest WACI at 441 tCO2e/£m revenue although Committee has agreed to remove this mandate from the strategy as part of the agreed changes in asset allocation. The JP Morgan Infrastructure Investment Fund had the greatest tie to fossil fuels with 22% of the portfolio having fossil fuel ties. Committee did engage with JP Morgan during the year and noted the progress being made on implementing net zero plans across the entirety of the mandate. Exposure to climate solutions was positive within the Stafford II Fund and the LCIV Renewables Fund, the latter being wholly focused on renewable energy infrastructure.

Committee has noted that gaps in the Fund's climate data remain and will engage with their investment managers to improve the quality of underlying data.

Disclosure C: Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The Committee did not set any targets for the Fund during the year although agreed a series of interim targets following the year end. These will be detailed in its Climate Policy and Action Plan. The broad objective areas set by the Fund include portfolio emissions, climate solutions and opportunities, alignment with Net Zero pathways and engagement. Each of these objective areas have respective key targets the Committee will assess and actions the Committee will take to achieve these key targets and objectives.

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