

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 12 of the draft Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026 (“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 the **draft** guidance issued by the Ministry of Housing, Communities and Local Government (“MHCLG”). The Committee acts on the delegated authority of the Administering Authority.
- 1.3. 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 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 TBC 2026).
- 1.6. In July 2023, the MHCLG launched the “Local Government Pension Scheme: Next Steps on Investments” consultation, commonly referred to as the “Fit for the Future” (FFF) proposals. The consultation set out the government’s vision for the LGPS to deliver greater value for money, improved governance, and enhanced stewardship, with a particular focus on accelerating the pooling of assets and strengthening responsible investment practices. At the time of preparing this Investment Strategy Statement (ISS), the government’s new Pensions Bill, which is expected to give statutory effect to many of the FFF proposals, has not yet been enacted.
- 1.7. The ISS has been restructured to reflect the requirements of the draft Regulations, with clear separation between the Fund’s strategic objectives and the operational responsibilities of the Pool but taking into account the current transitional arrangements whilst legislation is being finalised. The ISS also incorporates new requirements for explicit investment objectives, tolerance ranges for asset allocation, and approach to local investment.
- 1.8. The ISS was approved by the Committee on **[17 March 2026]** and is effective from 1 April 2026.

2. Pooling and the ISS

- 2.1. 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.
- 2.2. From April 2026, all Fund assets are required to be invested and managed by the London CIV. The Administering Authority will retain responsibility for setting the high-level investment strategy and strategic asset allocation. Implementation decisions, including manager selection, mandate construction, and portfolio rebalancing, will be delegated to the London CIV.
- 2.3. The Committee considered the implications of the FFF proposals at a strategy workshop in September 2025, covering local investment and wider pooling considerations.

3. The suitability of particular investments and types of investments

- 3.1. 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.
- 3.2. The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.
- 3.3. 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.
- 3.4. 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).
- 3.5. It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.
- 3.6. 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.
- 3.7. The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target strategic asset allocation.

4. Investment Objectives

- 4.1. The Committee has set the broad goal for the asset allocation to deliver stable long-term returns in excess of the liability discount rate through a diversified strategy, supported by significant income generation
- 4.2. This broader goal has been translated into explicit high-level investment objectives which align to the Funding Strategy Statement and are designed to protect contribution rate stability while meeting pension obligations.
- **Returns objective:** The discount rate underlying 2025 valuation discount rate was 5.5% p.a. which represents the minimum required return. The objective of the strategy is to deliver returns significantly above the minimum required over the longer term.

- **Risk objective:** Maintain a funding level of 100% with at least a 75% likelihood over a 20-year horizon. The investment strategy should aim to achieve this with expected forward-looking volatility of returns of 10-12% p.a. in normal market conditions.
- **Cash flow (liquidity) objective:** Ensure level of income generated in the Fund's investments is appropriate in the context of the Fund's overall cashflow position, taking into account contributions and expected benefit payments. The level of operational cash held within the portfolio should be consistent with the Fund's Cashflow Policy.

5. Local Investment

- 5.1. The Committee defines local investment as investment within the London area with an aim to identify investment opportunities close to, or within, the Borough of Havering where possible. The Committee sets an ambition of 2.5% of total assets to be invested locally without formal sub-targets by asset class.
- 5.2. The Committee has noted areas of focus in relation to its local investment allocations, which are set out below:
 - **Local employment** – Opportunities to invest in innovative companies which could have a positive impact on employment prospects for local residents.
 - **Housing** – residential property investments which could contribute to the alleviation of housing shortages in the local area.

Where possible, the Committee expects investments to be allocated in a manner consistent with these focus areas.

- 5.3. London CIV are expected to identify and implement opportunities consistent with the Fund's strategic objectives and fiduciary duty. Alignment with partner funds on local priorities is encouraged to maximise impact and reduce costs.
- 5.4. Any local investment opportunities will be subject to due diligence by London CIV, or their delegated external investment managers. These opportunities are expected to reside within the private equity, property, and private credit asset classes – the target local investment allocation may be spread across these asset classes.
- 5.5. The local investments must support the Fund's overall investment return and risk profile and wider objectives and beliefs, in context of the Fund's primary objective to meet its fiduciary duty to its beneficiaries.

6. Strategic Asset Allocations and Rebalancing Framework

- 6.1. 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. The Fund may also make use of contracts for differences and other derivatives for the purpose of efficient portfolio management or to hedge specific risks.
- 6.2. The Committee reviews the nature of the Fund's investments on a regular basis, with 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.

6.3. The Fund's target investment strategy is set out in Table 1 below. 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: Strategic asset allocation

Asset Class	Strategic Asset Allocation	Tolerance ranges
Listed Equity	40.0%	35% - 45%
Private Equity	2.5%	0% - 5%
Other Alternatives	10.0%	7.5% - 12.5%
Property / Real Estate	12.5%	10% - 15%
Infrastructure	12.5%	10% - 15%
Private Credit	10.0%	7.5% - 12.5%
Credit	10.0%	7.5% - 12.5%
UK Government Bonds	2.5%	0% - 5%
Cash	0.0%	0% - 5%

Rebalancing

- 6.4. London CIV, will have ultimately responsible and has discretion for determining whether and when rebalancing is taken within the strategic parameters set out in Table 1 above.
- 6.5. The Committee has established a preferred rebalancing framework, which London CIV is expected to take into account when exercising its discretion.
- 6.6. To avoid excessive rebalancing and transaction costs, the Committee's preference is that, where rebalancing is undertaken, the assets are not fully brought back to the strategic benchmark but to a position that is approximately halfway between the tolerance range and the strategic allocation. This takes into consideration the time lag between the reporting of a variance and execution of the rebalancing activity.
- 6.7. In exceptional circumstances – including periods of market volatility or when dealing costs are unusually high – London CIV may determine that rebalancing should be suspended or deferred.
- 6.8. Where rebalancing is undertaken, the Committee's preferred order for funding rebalancing is: first, the use of surplus cash, followed by dividend and/or interest income and lastly, the sale of overweight assets.
- 6.9. In implementing any rebalancing activity, London CIV is expected to have regard of the Committee's preferences.

7. Implementation

- 7.1. To date 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. A full list of which is included within the Fund's annual report.
- 7.2. It is expected that from 1 April 2026, London CIV will be responsible for all implementation decision making on behalf of the Fund, including manager selection, mandate construction and portfolio rebalancing within the strategic parameters set out in Table 1 above. The ISS does not prescribe individual investment managers, investment styles, or geographic exposures. The Committee will retain oversight of delivery and will receive quarterly reports and presentations from London CIV.
- 7.3. The London CIV's delegated authority for management and oversight of assets and implementation of strategy must provide reporting across any relevant topics in a transparent and timely manner. Standard reporting should cover core metrics, RI metrics, and local metrics. Reporting should be received in a timely fashion to support decision making and bespoke reporting should be offered to support Fund specific requirements.

8. Risk management

- 8.1. 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.
- 8.2. 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

- 8.3. 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.
- 8.4. 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. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. Management of some of the risks listed below will pass to London CIV as part of the of the responsibility to manage the operational aspects of the Fund.
- 8.5. 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.
- 8.6. 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

- 8.7. 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 London CIV is expected to mitigate the concentration of investment risk across the full spectrum of the investment universe to which authority to invest has been delegated.
 - **Liquidity risk:** Investments are held until such time as they are required to fund payment of pensions. The liquidity risk is 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. The London CIV is expected to consider and demonstrate the consideration of such risks in its implementation decisions.
 - **Manager risk:** Investment managers could fail to achieve the investment targets specified in their mandates. The London CIV has responsibility for the selection and appointment of managers within the strategy and is expected to ensure that the managers appointed to deliver the strategy remain

appropriate. The Committee will maintain oversight of the London CIV's processes in this regard and will ensure that it receives the information necessary to exercise this oversight and challenge decisions as appropriate.

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

8.8. 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.

8.9. 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 investment 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.

8.10. The appointment of investment managers to implement the investment strategy is the responsibility of the London CIV. The Committee will exercise oversight of the underlying investment arrangements and processes employed and challenge decisions as necessary, with investment performance of the managers forming a key consideration.

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

Other provider risks

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

- 8.13. The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations they conduct for the Fund. The Committee expects to delegate the majority of operational implementation and risk management to the London CIV.
- 8.14. A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

9. Responsible investment

- 9.1. 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.
- 9.2. 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 align its investments with the transition to a low carbon economy.
- 9.3. The Committee expects London CIV to take account of the Fund's climate policy in the implementation of the Fund's investment strategy. The Committee also expects the London CIV to integrate all material financial factors, including corporate governance, environmental, social, climate and ethical considerations, into the decision-making process for all fund investments.
- 9.4. The Fund expects London CIV 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 to be signatories of the UN supported Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code. The Committee will engage with the London CIV on the evolution of its approach to Responsible Investment.
- 9.5. The Fund expects London CIV 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 London CIV to understand what actions have been taken during regular review meetings.
- 9.6. The Fund expects that responsible investment considerations will form a component of the manager selection decisions undertaken by London CIV. The Fund will also encourage the London CIV to adopt best practice standards in the evaluation and monitoring of managers employed for investment.
- 9.7. 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 the London CIV 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.
- 9.8. The Fund monitors the activity of the London CIV on an ongoing basis and will review the approach taken annually.

10. Stewardship of assets

- 10.1. The Committee 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 Committee recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Committee has a commitment to actively exercising the ownership rights attached to its investments reflecting the Committee'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.
- 10.2. The Committee recognises that as its equity assets are invested in pooled vehicles, it remains subject to the voting policies of the investment managers of these vehicles:
- Investments through the London CIV are covered by the voting policy of the London CIV which has been agreed by the Pensions Sectoral Joint Committee.
 - In respect of Fund investments outside the London CIV, the Committee expects the investment managers to use voting power with the objective of preserving and enhancing long term shareholder value.
- 10.3. The Committee expects the London CIV to consult on any change in policy on an annual basis. The Committee will review any proposed changes and, where necessary, will challenge the London CIV to explain the reasoning for any change.
- 10.4. The Committee reviews voting activity by the London CIV on an annual basis. The Committee will challenge the London CIV 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.
- 10.5. 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.
- 10.6. The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to promote best practice by the London CIV and enhance the level of engagement both with external investment 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. Working with the Pool is expected to have the most meaningful impact.
- 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: Strategic Asset Allocation Modelling Benchmarks

Asset Class	Strategic Asset Allocation	Modelling Benchmark
Listed Equity	40.0%	35.0% Global Equities
		5.0% Emerging Market Equities
Private Equity	2.5%	2.5% Private Equity
Other Alternatives	10.0%	10.0% Diversified Growth Fund Low Beta
Property / Real Estate	12.5%	12.5% Property
Infrastructure	12.5%	12.5% Infrastructure Equity
Private Credit	10.0%	10.0% Private Lending
Credit	10.0%	2.5% A-Rated Credit
		7.5% Multi Asset Credit
UK Government Bonds	2.5%	2.5% Index Linked Gilts
Cash	0.0%	-