

## **LONDON BOROUGH OF HOUNSLOW PENSION FUND INVESTMENT STRATEGY STATEMENT, June 2023**

### **1.0 BACKGROUND**

- 1.1 The London Borough of Hounslow Council (LBH) is the administering authority for the London Borough of Hounslow Pension Fund (the “Fund”) which was established in accordance with statute to provide death and retirement benefits to all eligible employees of the Council, scheduled and admitted bodies.
- 1.2 Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 (“the regulations”) require administering authorities to prepare and review from time to time a written statement recording the investment strategy of their Pension Fund. The purpose of this Strategy is to satisfy the requirements of these Regulations, and to explain to Fund members, employees and other interested parties how the Fund is managed, and the factors considered in doing so.
- 1.3 Under the Local Government Pension Scheme (Management and Investment of Funds) the Investment Strategy Statement (“ISS”) must include the following:
- a) A requirement to invest money in a wide variety of investments;
  - b) The authority’s assessment of the suitability of particular investments and types of investments;
  - c) The authority’s approach to risk, including the ways in which risks are to be measured and managed;
  - d) The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;
  - e) The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
  - f) The authority’s policy on the exercise of rights (including voting rights) attaching to investments.
- 1.4 The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This is known as the prudential framework and means funds now have control over limits placed on specific types of investment.
- 1.5 The Department for Levelling Up, Housing & Communities (DLUHC) has issued guidance on preparing and maintaining Investment Strategy Statements. This Statement complies with this guidance.

- 1.6 The Secretary of State has the power under these regulations to issue a Direction if they are satisfied that an administering authority is failing to act in accordance with the guidance. These powers are a last resort and before exercising them the Secretary of State will consult with Funds if he believes they are acting unreasonably.

## **2.0 INTRODUCTION**

- 2.1 The London Borough of Hounslow Pension Fund, is a Career Average Revalued Earnings (CARE) defined benefit pension scheme established by statute, operating under the Public Sector Pensions Act 2013. It provides retirement and death benefits for eligible members and their dependants. The benefits are defined in law and increased each year in-line with movements in inflation (Consumer price inflation).
- 2.2 The Council has delegated the investment management of the scheme to its Pension Fund Panel (the Panel, PFP). The ultimate responsibility for the investment strategy lies with the Panel.
- 2.3 The ISS reflects the current structure of the fund's investments. Hence it reflects the structure of BlackRock's and Aberdeen's investment mandates, investments in the CBRE Lionbrook Property Fund and the Columbia Threadneedle Pension Property Fund undertaken in 2014, the investment in the Fidelity Multi Asset Income initially undertaken in November 2016, investments in the active equity managers and renewable infrastructure on the London CIV (Collective Investment Vehicle) initiated in 2017, 2020 and 2022 respectively.
- 2.4 The Pension Fund Panel has appointed an independent advisor, Apex Group, to advise on investment strategy, oversee the activities of the investment managers, and be generally available for consultation on fund investment matters.
- 2.5 Barnett Waddingham has been appointed as actuaries to the Fund.
- 2.6 Northern Trust has been appointed as the custodian to the Fund.
- 2.7 Administration of the fund is undertaken by a third party, West Yorkshire Pension Fund. Pensioner payroll is also undertaken by a third party, Liberata.
- 2.8 The main responsibilities of the key stakeholders are laid out in Appendix 1 to this Strategy.
- 2.9 Aim of the Fund
- 2.9.1 The LBH Pension Fund is a long-term Fund, and the investment strategy must reflect this. Ultimate responsibility is to present and future pensioners. The aim of the Fund is to provide a pool of assets sufficient to meet the long-term pensions and benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for the members of the Fund.
- 2.9.2 As referenced in the Funding Strategy Statement, based on the triennial

actuarial valuation last undertaken on data as at the 31<sup>st</sup> of March 2022, the fund is fully funded following several years of strong investment returns. This will be reviewed following each actuarial valuation.

- 2.9.3 In compiling the Fund's 2022 Actuarial Valuation, the Fund's Actuary, Barnet Waddingham advised that the Fund requires the assets to deliver a long-term return of above the discount rate of 4.7%, which is set out in the Fund's Funding Strategy Statement.

### 3.0 DIVERSIFICATION

- 3.1 The Regulations require that the Statement demonstrates the requirement to invest money in a wide variety of investments. The Fund will hold a range of asset classes as set out in the table below. These will be reviewed continually, in the light of market conditions. The Fund has moved from having a peer group benchmark to having a tailored asset allocation benchmark. The benchmark sets out the mix of assets to be held in the Fund's portfolio of investments. This benchmark is consistent with the Pension Fund Panel'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. The detailed specific benchmarks for the Fund's individual managers are shown in Appendix 2.
- 3.2 Advisory ranges for the assets are detailed in Column 3 of the table below. This gives more flexibility to ensure the Fund's allocation does not deviate substantially from its benchmark and mean that the fund does not need to be rebalanced if assets have short term moves within these ranges. Any rebalancing will only take place after discussion with Pension Fund Panel.

Asset Class	Proportion %	Advisory range %	Benchmark Index
<b>Equities</b>			
UK	10	+/-5	FTSE All Share Index
Overseas Equities	40	+/-5	MSCI AC World excl UK
<b>Bonds</b>			
Conventional Bonds	10	+/-2	iBoxx Non Gilt All Maturities
Index-Linked Gilts	5	+/-2	FTSE Over 5 Years ILG All Stocks
<b>Commercial Property</b>	5	+/-2	IPD UK All Properties Monthly
<b>Infrastructure</b>	5	+/-2	7-10% absolute return
<b>Multi-Asset Credit</b>	5	+/-2	TBC <sup>1</sup>
<b>Affordable Housing</b>	5	+/-2	TBC <sup>2</sup>
<b>Income sleeve</b>	15	N/A	4% Absolute return
<b>Cash</b>	0	Maximum of + 5	1 month Sonia
<b>TOTAL</b>	<b>100</b>		

<sup>1</sup> Suitable benchmarks will be established once mandates are procured.

<sup>2</sup> ibid

## 4.0 SUITABILITY OF INVESTMENTS

- 4.1 The Funding Strategy Statement (FSS) compares the Fund's liabilities with its assets. It is based on each triennial actuarial valuation. The current FSS based on the 2022 actuarial valuation. This valuation revealed that the fund's deficit has now been eliminated and the fund is in surplus. Alongside that fact, fund maturity is now an important element of our Investment Strategy. The Fund has become cashflow negative i.e. its employer and employee contributions no longer cover its pension payments. Hence the Fund has invested or plans to invest in a Multi Asset Income, Infrastructure, Multi-Asset credit and Affordable Housing mandate to generate both cashflow to pay pensions, and to contribute capital growth. This balancing of cashflow requirements and capital growth will be an important element of reviewing the Investment Strategy going forward.
- 4.2 The types of investment held each have separate roles to play within our strategy, as explained in the table below.

<b>Asset Class</b>	<b>Role Within Strategy</b>
Listed Equities	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
Bonds	Debt instruments issued by Governments and other borrowers. Expected to provide relatively low risk income stream and capital appreciation of underlying bonds. Prices tend to fluctuate less than equities.
Index Linked Gilts	Debt instruments mainly issued by Governments. Low risk income stream with an explicit linkage to inflation
Property	Investments in land or buildings such as offices, warehouses, or retail units. Generate returns in excess of inflation through exposure to UK property through income and capital appreciation, whilst providing some diversification away from equities and bonds.
Infrastructure	Investment in assets such as transport, energy and communications with the aim of generating a steady cashflow and return that has a low correlation to the return of global equities.
Dedicated Income sleeve	Provide significant income stream and potentially capital growth by protecting investments against adverse economic cycles and matching our liability profile.
Affordable Housing	Affordable housing is an investment which looks to provide net additional accommodation to those with a housing need, while also generating a return. Strategies can be partially government-funded schemes, with inflation-linked leases and can contain a mix of general needs housing (e.g. key workers), specialist housing (e.g. elderly or disabled) and transitional supported housing (e.g. homeless, domestic abuse victims)
Multi-Asset Credit	A credit strategy that invests predominantly in investment grade and sub-investment grade debt

Asset Class	Role Within Strategy
	across corporate bonds, leveraged loans and asset-backed securities. The aim is to generate income and capital growth.
Cash	The fund will use low volatility money market funds to manage cash holdings during transitions between asset classes within the fund and also to ensure that income drawdown to pay pensions is held securely while also achieving a modest return. These funds maintain high liquidity and high levels of capital preservation through investments in high quality short-term credit instruments such as commercial paper, certificates of deposit, floating rate notes, repurchase agreements, deposits and asset-backed commercial paper.

## 5.0 RISK MANAGEMENT

- 5.1 Risk management is the process by which the Administering Authority systematically identifies and addresses the risks associated with its Pension Fund activities; it is a key element of good governance for any organisation. Officers of the Fund maintain the Hounslow LGPS (Local Government Pension Scheme) risk register. This is a dynamic document and is reviewed at Pension Fund Panel meetings. The report incorporates details of the major risks facing the Fund and includes a traffic light scoring system to categorise the anticipated likelihood and impact of each risk. Officers are charged with actively monitoring progress in relation to controls and actions taken to mitigate risk. The Risk Register is reported to Members twice a year.
- 5.2 The following risks are recognised in the Funding Strategy Statement, this Statement, and in the Risk Register:-

**Financial risk:** the risk that the investment strategy fails to produce the expected rate of investment return that underpins the funding strategy due to fund managers failing to achieve their performance target. The Investment and Pension Fund committee regularly monitor the investment returns of the fund managers against benchmark and performance objectives and seek advice from independent advisers and officers.

**Diversification risk:** the Panel recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Panel aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

**Concentration risk:** the Panel takes into consideration concentration risk which arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers or in the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

**Systemic risk:** the risk of interlinked and simultaneous financial market volatility affecting several asset classes and investment managers causing an inability for

the Fund to meet its liabilities. The Fund has controls in place for a diversified portfolio with exposure to a wide range of asset classes, geographies, sectors, portfolio holdings and fund managers to mitigate this risk by monitoring the fund quarterly.

**Inflation risk:** This risk arises when the value of future benefit payments increases due to the rise of inflation as measured by CPI. The Fund invests in assets such as index linked gilts and property with inflation linked income streams to manage and mitigate this risk and regularly monitors the funding level.

**Valuation risk:** the Actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved if the assets do not deliver as expected. The Committee seek advice from the Fund Actuary on valuation related matters.

**Climate risk:** The Panel acknowledges that there may be a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and liabilities of the fund. The Fund expects its appointed investment managers to be informed about climate risks and take investment opportunities accordingly within their processes. The funding strategy is sufficiently robust and the fund will continue to assess this risk on a regular basis.

## **6.0 ASSET POOLING**

6.1 The Government has mandated (LGPS (Management and Investment of Funds) Regulations 2016) that the 86 separate LGPS Funds should combine their assets into a small number of investment pools. The basis of the pooling must be in line with guidance issued by the Secretary of State and meet the four criteria set out below:

- a. Benefits of scale - a minimum asset size per pool of £25bn.
- b. Strong governance and decision making
- c. Reduced costs and value for money
- d. Improved capacity to invest in infrastructure

6.2 Eight pools nationally have been set up. This Fund is part of the London Collective Investment Vehicle (CIV) which has been set up for all the London Borough Pension Funds. The London CIV is fully authorised by the Financial Conduct Authority (FCA) as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme (ACS) fund.

6.3 Hounslow Pension Fund will maintain control of its Investment Strategy and asset allocation, with the CIV aiming to open sub-funds to enable London Borough Pension Funds to implement their investment strategies in a cost-effective manner.

6.4 The Fund holds assets in the BlackRock passive global equity ACS Fund. The Fund has benefited from lower fees from this facilitated relationship between BlackRock and the CIV.

6.5 The Fund has also invested in the active equity managers Longview and RBC, which are on the CIV platform. During 2022, the Fund also invested in the CIV's private markets Fund for renewable infrastructure. The Fund will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

## **7.0 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG) POLICY**

7.1 External fund managers are expected to consider ESG issues when assessing potential investment opportunities. It is the belief of the Fund that well governed companies that manage their business in a responsible manner will produce superior returns over the long term, and the Fund expects these considerations to form part of the investment selection criteria for external fund managers in carry out stock selection. The Fund also holds expectations of its fund managers to hold companies to account with reference to the highest standards of behaviour and reputational risk management which may affect long term performance, and for those issues to be part of their stock selection criteria. The Fund believes that 'robust' engagement with companies is a better approach than placing restrictions on particular types of investment.

7.2 The Fund is an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles. Share voting is undertaken internally, with a specialist corporate governance advisor. An Annual Report on voting is presented to the PFP, and forms part of the Annual Report and Accounts.

7.3 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a [membership group](#) of 87 individual LGPS (Local Government Pension Scheme) funds, and also the pooling organisations, that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

7.4. The Fund is a regular co-filer on shareholder resolutions on matters relating to climate change. It has been a co-filer on resolutions at the BP, Shell and Rio-Tinto AGMs (Annual General Meetings). All of these resolutions were passed by shareholders with votes of over 98% at all the meetings, and hence are legally binding on the companies.

### **7.5. Climate Change**

Climate change has the potential to have a serious impact on financial markets and this risk will be measured, monitored and managed by the Fund. Equally, climate change presents the Fund with investment opportunities in areas such as energy efficiency and renewable energy sources.

The United Nations Sustainable Development Goals 7 (affordable and clean energy), 11 (sustainable cities and communities) and 13 (climate action) represented the strongest investment risks and return opportunities for the Fund. Over time, it expects all its investment managers and advisers to prioritise these SDGs when making investment decisions on behalf of the Fund.

## **8.0 VOTING RIGHTS AND POLICY**

- 8.1 The Fund believes that its long-term investment interests are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which it is invested. Poor governance can negatively impact shareholder value. Stewardship aims to promote long term success of companies in order to benefit shareholders too. Stewardship involves monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance. This includes culture and remuneration.
- 8.2 The Fund exercises its voting rights at the Annual/Extraordinary General Meetings of all UK companies within the FTSE 350, European companies within the Eurotop 300, and US companies in the S & P 500, in which the Fund has shareholdings. The voting policy is based on best practice. For the UK this is encompassed in the UK Governance Code. In overseas markets, the voting policy takes account of local best practice principles. The voting system is operated by templates monitored by PIRC. For controversial issues the views of the Pension Fund Panel will be sought.
- 8.3 The Fund reports annually to the Pension Fund Panel on the operation of its voting policy throughout the year. This report is comprehensive and ensures transparency and is a public document.
- 8.4 The Financial Reporting Council has introduced a tier system, to evaluate the Stewardship policies of signatories. DLUHC encourage administering authorities to state how they implement the seven principles and guidance of the UK Stewardship Code, which apply on a comply or explain basis. Our approach to this is attached at Appendix 3. Our corporate governance provider, PIRC, has received a top Tier 1 rating for its policies. The Fund expects its external investment managers, where applicable, to be signatories to the Stewardship Code and to have reached Tier One level of compliance. As at the time of writing this was confirmed.



## **APPENDIX 1 : GOVERNANCE OF FUND**

### **1.0 LBH is the Administering Authority.**

LBH is responsible for managing the Fund in accordance with the Regulations. The Statement of Corporate Governance gives details of the membership and operation of the Pension Fund Panel. Trustees include Councillors, an employers' representative, a pensioners' representative and a staff representative. The Panel meets at least quarterly.

The Terms of Reference of the Pension Fund Panel are: -

1. To consider on the advice of the S151 Officer and Council's Fund Managers, the Council's general policy with regard to Pension Fund Investments;
2. To make arrangements for the management of the Fund in line with the Investment Strategy Statement;
3. To monitor the performance of the Fund and its Managers;
4. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the S151 Officer and appropriate Manager (s); and
5. To overview and agree pension fund administration matters e.g. approval of Administration Strategy and delivery of the benefits service.

### **2.0 The Fund Managers are responsible for:-**

- a) attending meetings with the Pension Fund Panel and with officers, as requested;
- b) the investment of the Pension Fund assets in compliance with prevailing legislation, the constraints imposed by this document and their detailed Investment Management Agreements;
- c) security selection within asset classes; and d) active management of their cash balances.

### **3.0 The Custodian, Northern Trust, is responsible for:-**

- a) its own compliance with prevailing legislation;
- b) ensuring the Fund's relevant investment holdings are properly and securely held and registered;
- c) providing the administering authority with monthly valuations of the Scheme's assets and details of all transactions during the month; and
- d) processing income and corporate actions arising from the Fund's relevant investment holdings.

**4.0 The Independent Advisor, Apex Group, is responsible for:-**

- a) provision of expert advice, for example on implementing the Investment Strategy Statement and on other compliance issues;
- b) provision of expert advice on Pension Fund performance i.e. investment selection, and research into specific issues;
- c) attendance at each meeting of the Pension Fund Panel; and
- d) liaison with Trustees and officers of the LBH Pension Fund.

**5.0 The Actuary, Barnett-Waddingham, is responsible for:-**

- a) undertaking a triennial valuation of the Fund;
- b) undertaking an annual assessment of the liabilities and assets of relevant employers of the Fund under international accounting standards for their Statement of Accounts; and
- c) providing advice as to the maturity of the Scheme and its funding level, in order to aid the Pension Fund Panel in balancing the short term and long term objectives of the Pension Fund.

**6.0 The Director of Finance and Corporate Services (S151 Officer) is responsible for:-**

- a) acting as professional advisor to the Fund;
- b) the appointment of any professional external consultants, as required, and subject to the approval of the Pension Fund Panel;
- c) alerting the Pension Fund Panel and the Executive of any problems in the funding level or administration of the Fund (in his capacity as the Council's Section 151 Officer); and
- d) ensuring compliance with this document and bringing breaches thereof to the attention of the Pension Fund Panel.

**7.0 LBH has an established Pension Board.**

The Pension Board is defined by the Public Service Pensions Act 2013, will be responsible for assisting the Administering Authority as Scheme Manager to: -

- a) secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
- b) secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
- c) carry out such other matters as the LGPS regulations may specify; and

- d) secure the effective and efficient governance and administration of the LGPS for the Hounslow Pension Fund.

The role is one of providing oversight of assurance in and governance of the scheme administration and not decision making.

**8.0 Administration of benefits is undertaken by West Yorkshire Pension Fund. They are responsible for:-**

- a) calculation of pension benefits, lump sum benefits and early retirements;
- b) collection of pension related data from employers and members; and
- c) correspondence and communications.

**9.0 The London CIV (Collective Investment Vehicle) will be responsible for administering the management the Fund's investments that are on the CIV platform. Hounslow Pension Fund will maintain control of its Investment Strategy and asset allocation, with the CIV aiming to open sub-funds to enable London Borough Pension Funds to implement their investment strategies in a cost effective manner.**

Over time, the proportion of our investments managed by the CIV will increase, as long as those sub-funds managed by the CIV meet our Investment Strategy objectives.

## APPENDIX 2 : FUND MANAGER MANDATES AND BENCHMARKS

### 1.0 BlackRock

BlackRock is appointed to manage a multi-asset portfolio covering equities and bonds. The asset allocation benchmark and the ranges within which BlackRock are allowed to diverge from the benchmark allocation is set out below.

<b>Asset Class</b>	<b>Benchmark</b>	<b>Allocation %</b>	<b>Range %</b>
UK Equities - segregated	FTSE All Share	45	+/- 5
Global equities excl UK - passive	MSCI AC World Excl UK	33	+/- 5
Index-Linked Gilts	FTSE Over 5 Years ILG	6	+/- 5
Conventional Bonds	iBoxx Sterling Non Gilts	16	+/- 5
Cash		0	0-10
<b>TOTAL</b>		<b>100</b>	

The manager's target is to outperform the benchmark by 1% p.a. over three years. In addition, there is a performance related fee.

### 2.0 Aberdeen

Aberdeen is appointed to manage a multi-asset portfolio covering equities and bonds. The asset allocation benchmark and the ranges within which Aberdeen are allowed to diverge from the benchmark allocation is set out below.

<b>Asset Class</b>	<b>Benchmark</b>	<b>Allocation %</b>	<b>Range %</b>
UK Equities	FTSE All Share	52	+/- 10
Global equities excl UK	MSCI AC World Excl UK	20	+/- 10
Index-Linked Gilts	FTSE Over 5 Years ILG	11	+/- 10
Conventional Bonds	iBoxx Sterling Non Gilts	17	+/- 10
Cash		0	0-5
<b>TOTAL</b>		<b>100</b>	

The manager's target is to outperform the benchmark by 1.0% p.a. over three years.

### 3.0 Longview Active Global Equity on the London CIV

This is an actively managed pooled fund investing in global equities. The portfolio is concentrated on around 35 stocks, with a strong tilt towards the United States.

The Sub-fund's long-term objective is to achieve capital growth.

#### **4.0 RBC Sustainable Equity Fund on the London CIV**

This is an actively managed pooled fund investing in global equities which is a concentrated portfolio of approximately 38 holdings focused on high quality companies with sustainability characteristics.

The Sub-fund's objective is to achieve capital growth by outperforming the MSCI World (Total Return) by 2% per annum net of fees annualised over rolling three-year periods.

#### **5.0 Columbia Threadneedle Pensions Property Fund**

The Fund invests in the Columbia Threadneedle Pensions Property Fund. This is a diversified, multi-sector commercial UK property portfolio. The Fund concentrates on high yield grade B properties.

The manager's target is to outperform the IPD Index by at least 1% per annum, net of fees, on a rolling three year basis.

#### **6.0 CBRE Lionbrook Property Fund**

The Fund invests in the CBRE Lionbrook Property Fund. This is a diversified, multi-sector commercial UK property portfolio. The Fund concentrates on prime properties.

The manager's target is to outperform the IPD Index, net of fees, on a rolling three year basis.

#### **7.0 Fidelity Multi Asset Income Fund**

The Fund is structured to deliver yield and potentially capital growth. It invests in a mixture of growth, hybrid and income assets, targeting market inefficiencies through flexible asset allocation. The aim is to deliver 4% income absolute return (gross of fees).

#### **8.0 Renewable Infrastructure Fund on the London CIV**

The Fund is structured to deliver both capital growth and income. The Fund's long-term objective is to seek to deliver an IRR (net of fees) of 7 - 10 %, with a target yield 3 - 5% per annum.

## **APPENDIX 3 : STATEMENT OF COMPLIANCE WITH THE UK STEWARDSHIP CODE**

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

This Investment Strategy Statement explains how we discharge our stewardship responsibilities.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects its fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Panel members are required to make declarations of interest prior to panel meetings.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to our appointed fund managers and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund actively votes all its segregated equity holdings directly and liaises with the fund managers as necessary.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. On occasion, the Fund may itself choose to escalate activity; this will typically be through our membership of the LAPFF e.g. through co-filing shareholder resolutions.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. This is achieved through our LAPFF membership, together with initiatives proposed by our investment managers or other advisors.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund aims to exercise all votes associated with its segregated equity holdings and operates a custom policy which reflects the Fund's investment objectives. Fund officers are responsible for voting decisions and are supported by specialist proxy research.

On a general basis, the Fund will support resolutions which are consistent with the UK Governance Code and represent best practice. In overseas markets, we will take account of local best practice principles. Where resolutions or issues fall short of the

expected standards, we will either abstain or vote against, depending on the individual circumstances of the company and the issues presented.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on its stewardship activity to the Panel annually, and this document is publicly available.

## APPENDIX

### STATEMENT OF INVESTMENT BELIEFS

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's investment strategy including the management of exposure to investment risk. The Fund's investment beliefs are as follows :

#### Objectives

- Setting clear and well-defined objectives are essential to achieve future success
- Risk management framework
- Quantitative and Qualitative assessments

#### Governance and organisational beliefs

- Effective governance structures and policies
- Transparency and cost effectiveness
- Clear decision making structures promote clear accountability, audit

#### Asset Allocation and implementation beliefs

- Long term investing provides opportunities for enhancing returns
- Equities are expected to generate superior long-term returns
- The need to take appropriate level of investment risk to ensure the affordability and sustainability of the Fund and manage funding level volatility.
- Long term focus helps the fund tolerate periods of active manager underperformance
- Diversification helps to spread risk across a range of factors.
- Alternative investments provide diversification
- Investment costs should be assessed with any investment decision with effective cost management being able to enhance overall returns.
- Market inefficiencies will provide opportunities to add value over time
- Passive management allows the fund to access certain asset classes on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

#### Responsible investment beliefs

- Responsible Investment is important to the Panel and Board and can have a material impact on the long-term performance of its investments

#### Climate change beliefs