Staffordshire
Pension Fund
Local Government Pension Scheme

Investment Strategy Statement

April 2018

Investment Strategy Statement (revised April 2018)

1. Introduction and Background

1.1 This is the Investment Strategy Statement ('the Statement') produced by Staffordshire County Council as the administering authority of the Staffordshire Pension Fund ('the Fund'), to comply with the regulatory requirements specified in Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ('the investment regulations'). The Statement is subject to annual review and within six months of any material change in investment policy or other matters as required by law.

1.2 The Statement was originally approved by the Pensions Committee following consultation with the Fund's advisors and employing bodies in March 2017. The Pensions Committee have approved minor updates to the Statement in March 2018. The Pensions Committee is the main decision making body and comprises both elected councillors and non voting representatives from Trades Unions and from other employing bodies in the Fund. A full explanation of the governance arrangements setting out the respective roles of the Pensions Committee, Pensions Panel and the Local Pensions Board (LPB) can be found in the separate document entitled 'Governance Policy Statement' published on the web.

http://www.staffspf.org.uk/governance

1.3 In preparing the Statement the Pensions Committee has consulted with its Advisors, as there are close links between this statement and the separate Funding Strategy Statement ('FSS') which can also be found on the web.

https://www.staffspf.org.uk/Finance-and-Investments/Funding-Strategy-Statement

2. The Fund's Objectives

2.1 The **primary objective** of the Fund is:

- To ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment.

2.2 The Fund has **funding strategy objectives** which are set out in the Funding Strategy Statement (FSS). These are:

- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members' / dependent's benefits as they fall due for payment;
- To ensure that employer contribution rates are reasonably stable where appropriate;
- To minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return (NB this will also minimise the costs to be borne by council tax payers);
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

2.3 The FSS sets out the main aims of the Fund and sets employers' contribution rates to achieve those aims on the basis of a Strategic Asset Allocation that is predominantly invested in equities. The FSS models the risks of this investment strategy and in particular the link between assets and liabilities. It also sets out the likelihood of achieving the funding objective in the long term. The FSS has an explicit stabilisation mechanism to limit the annual increase in contribution rates for Local Authorities and other employing bodies with strong covenants.

2.4 The **investment objective** of the Fund is:

- To achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding strategy objectives an ongoing basis.

3. Investment Strategy and Beliefs

3.1 The Fund has built up assets over the years and continues to receive contribution and investment income. Any Fund money which is not needed immediately to make payments from the Fund must be invested in a suitable manner; the way in which this is done is referred to as the investment strategy. The Fund ensures it has parameters around its investment strategy by setting a Strategic Asset Allocation, which at a primary level indicates how much the Fund will allocate to each asset class i.e. Equities, Bonds, Alternatives and Cash. This primary level is often sub-divided further by geography, type of investment and manager allocations.

3.2 The Fund shares a set of common **investment beliefs** which it thinks about when setting its investment strategy:

- A long term approach to investment will deliver better returns;
- The long term nature of LGPS liabilities allows for a long term investment horizon;
- Asset allocation is the most important factor in driving long term investment returns;
- Liabilities influence the asset structure; Funds exist to meet their obligations;
- Risk premiums exist for certain investments and this can help to recover funding deficits;
- Markets can be inefficient, therefore there is a place for both active and passive management;
- Diversification across investments with low correlation improves the risk / return profile;
- Secure and growing income streams underpin the ability to meet future liabilities; and
- Responsible investment can enhance long term investment performance.

3.3 The Pension Fund's **Strategic Asset Allocation (SAA)** is formulated in consultation with the Fund's investment advisors, Hymans Robertson, with all the

Fund's objectives in mind. The latest SAA was carried out following the results of the actuarial valuation as at 31 March 2016. It was determined with reference to:

- The probability that it will deliver a return that, in conjunction with the contribution strategy, will achieve the Fund's long-term funding target; and

- The probability that any shortfall from funding target in the event of adverse investment outcomes will be within acceptable levels.

3.4 In order to do this, Hymans Robertson carry out their own financial modelling (called stochastic modelling) on the proposed SAA and contribution rate strategy, to asses the likelihood of the desired funding level (i.e. 100%) being achieved in 20 years time. They test the strategies under a variety of simulated economic conditions and use different variables, to provide the Fund with reassurance that two thirds of the simulations should achieve the desired funding level. This also provides confidence that in the majority of economic conditions over the next 20 years, the SAA will most likely achieve the desired funding level. The modelled scenarios also test that a modest variation of the SAA, of up to 5%, can be tolerated without the likelihood of the funding level being compromised; albeit the Fund currently operates in ranges of plus or minus 3% around the major asset classes.

3.5 The 2016 actuarial valuation of the Fund, showed a funding level of 78% (an increase from 72% as at 31 March 2013). This means the Fund still needs it's assets to grow significantly and the SAA aims to achieve this, therefore, through a significant allocation to growth assets (i.e. equities, property and alternatives). This is balanced to some degree by allocations to stabilising assets to closely match the liquidity demands of the Fund.

3.6 Currently, the contribution income from employing bodies and employees is roughly equal to benefit payments to pensioners. This is important as it means the income generated from assets can be reinvested in the Fund. However, at some point over the next 10 years the valuation indicates that outgoing payments will exceed income by 10%. It is expected that the investment income generated by the current asset allocations will be sufficient to cover this.

3.7 The SAA is reviewed and approved by the Pensions Committee, every three years, as part of setting the funding strategy and to take account of developments in the investment environment. It is monitored more frequently at quarterly meetings of the Pensions Panel.

3.8 The arrangements for the Fund's investments changed with the advent of LGPS Central Limited on 1 April 2018. Staffordshire is one of 8 Partner Funds and over the next few years, the majority of the Fund's investments will be managed by LGPS Central Limited. However, the decision making around the Fund's SAA, which is recognised to be the primary driver of investment returns, will be retained by the Pensions Committee.

4. The requirement to invest money across a wide range of investments and an assessment of the suitability of particular investments and investment types.

4.1 The Pensions Committee receives advice on investments from its appointed Investment Consultants. The issues that the Committee takes into account in considering different investments (or asset classes) include;

- Legality – is it excluded by any regulation?
- The nature and type of return (e.g. is the asset 'real'?)
- The expected level of return
- The expected variability of return (volatility)
- The relationship of returns between asset classes
- The long term track record of the asset class
- Liquidity
- Credit Risk (i.e. risk of loss)
- Leverage
- Currency risk
- Complexity
- Use of active management where it can add value
- Responsible Investment

4.2 Following the Actuarial Valuation of the Fund as at 31 March 2016, the Pensions Committee agreed that the following asset classes were appropriate for the Fund to invest in.

Asset Class	
Equity	UK
	Global
	Private Equity
	*LGPS Central Limited
Bonds	Gilts
	Index Linked Gilts
	Other Investment Grade Corporate Bonds
	*LGPS Central Limited
Cash	
Property	
Alternatives	Hedge Funds
	Commodities
	Infrastructure
	Active Currency
	Other Alternatives e.g Private Debt

*The Fund invests in the regulatory capital of LGPS Central Limited.

4.3 The Fund's SAA is set to ensure that the Fund invests in a wide range of asset classes. This diversification of assets reduces risk and also aims to help meet the Fund's funding objectives. Whilst the SAA sets the framework for the Fund's portfolio of assets over the long term, many more detailed decisions have to be taken to build the portfolio of assets; these include aspects such as the characteristics of the equity portfolio (e.g. passive (v) active management, geographical spread), the bonds to be held (e.g. government bonds or corporate credit) and the alternative assets in which the Fund should invest (e.g Private Equity, Private Debt, Hedge Funds, Infrastructure etc).

4.4 These 'structural' aspects are the subject of ongoing monitoring by Officers and Advisors and a 'Strategic Benchmark Review and Monitoring' report is presented quarterly to the Pensions Panel for its consideration. From time to time, when markets dislocate, 'tactical' moves between asset classes may be deemed appropriate. However, the Pensions Panel will only agree to make any such switches, following clear advice and recommendations from their advisors.

4.5 Furthermore, in order to ensure that 'tactical' switches are not effected unnecessarily, the Pensions Panel monitors the actual SAA of the Fund, subject to the tolerances versus the target SAA of the Fund. The current target SAA target and permitted tolerance ranges are provided in Appendix A.

4.6 The Fund categorises assets between growth assets and stabilising assets, with the stabilising assets being those which aim to remove some of the volatility and risk in the investment strategy (e.g. if equity markets fall in value, other asset classes may rise in value). The balance between growth assets and stabilising assets must be such that some of the volatility can be managed, but that the investment strategy is still capable of returning the level of growth required in the long term; as per the assumptions made by the Actuary in the triennial valuation.

Expected Return on Investments

4.7 In carrying out the 2016 Actuarial Valuation of the Fund, the Fund's Actuary agreed a number of financial assumptions with the Pensions Committee. One of these related to the likely level of investment returns the Fund could expect over the long term. The assumption was based on the expected return from a long term 'risk-free' asset, (i.e. a government bond) added to which is a prudent assumption for the excess return the Fund might get for investing in riskier assets (i.e. equities) over the long term. This is known as the Discount Rate Assumption.

Discount Rate = Long Term Gilt Yield + Asset Outperformance Assumption (AOA)

3.8% = 2.2% + 1.6%

4.8 The following table details the assumptions made about the expected 12 month and long term returns (net of fees) from each of the main asset classes, which were used in the SAA modelling work as part of the 2016 actuarial valuation. The table also provides the annual expected volatility of those returns as at 31 March 2016.

		Expected Rate of Return in Year 1 (p.a.)	20 year Rate of Return (p.a.)	Volatility of Return in Year 1 (p.a)
		31 March 2016	**31 March 2016**	**31 March 2016**
Equity	UK	4.4%	5.9%	18%
	Overseas	3.9%	5.6%	22%
	Private Equity	5.0%	7.0%	27%
Bonds	Long-dated Gilts	0.1%	1.4%	11%
	Index-linked Gilts	0.2%	0.5%	9%
	Corporate Bonds	3.2%	1.6%	7%
Cash		0.7%	2.6%	1%
Property	UK Commercial	2.0%	3.7%	14%
Alternatives	Private Debt	1.7%	4.2%	7%
	Hedge Funds	1.5%	4.1%	13%

4.9 Any asset class / investment is assessed on its individual merits and on the potential it offers to improve the overall balance of risk and return for the Fund as a whole. The numbers given in the previous table are indicative of the characteristics sought. The expected return from alternatives is not required to match those of equities, if they offer a more stable pattern of returns and a degree of diversification from equities.

4.10 The portfolios making up the Fund's assets are managed on both an active and a passive basis with the active portfolios expected to outperform their respective benchmarks over the long term. As a result, the investment return achieved by the Fund is expected to exceed the return on gilts (a proxy for the expected growth in liabilities) by a greater margin than that assumed by the Actuary in the 2016 valuation. Details of the managers, their respective investment benchmarks and investment performance targets are included in Appendix B for information.

4.11 The Fund's investment portfolio is monitored quarterly by the Pensions Panel, which receives a report on performance. This covers the total Fund performance, in terms of returns received compared to the benchmark, the performance of individual asset classes and the performance of individual investment managers versus their individual targets. The Pensions Panel use this information to help them assess the ongoing suitability of the Fund's investment strategy and SAA.

4.12 Although the Fund does not currently invest in **Infrastructure**, the Pensions Committee agreed as part of the July 2016 submission to Government on Asset Pooling that it would endorse the LGPS Central Pool's proposal for a minimum 5% target for investment in infrastructure, on the proviso that suitable investments could be found that were consistent with the Fund's SAA. It was noted that this could take a number of years for the Fund to implement.

5. Other considerations:

5.1 Realisation of investments

5.1.1 The majority of stocks held by the Fund's Investment Managers are quoted on major stock markets and may be realised quickly if required. Property, Private Equity, Private Debt and Hedge Fund investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets.

5.2 Stock Lending

5.2.1 Since May 1999, the Pension Fund has been part of its Custodian's stock lending arrangement, whereby securities held by the Pension Fund are loaned to a third party in return for a fee that helps the Pension Fund meet its funding objectives.

5.2.1 There are risks in stock lending but the Pensions Panel considers that these are well managed by the custodian through its lending program. They are also satisfied that there are appropriate collateral arrangements in place which reflect current market practice.

5.2.3 Overall, the Pensions Panel considers that the income from stock lending is beneficial to the Fund and that the risks are understood and well managed. Furthermore, they have agreed to place reliance on the co-ordinated actions of the national Financial Regulators in relation to the lending of certain bank, insurance and financial stocks. The policy will be kept under review with periodic reports to the Pensions Panel.

5.2.4 The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit holders. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. Although the Pensions Panel has no direct control over stock lending in pooled funds, it is comfortable that the extent and nature of this activity is appropriate to the risk being taken.

5.3 Pension Fund Cash

5.3.1 Cash management in the Pension Fund comprises two elements:

(i) Cash held in the Pension Fund bank account; and

(ii) Cash held in the Custodian's bank account.

5.3.2 The Pension Fund has a 1% strategic allocation to cash which is primarily used for fulfilling the daily liquidity needs of the Fund. The cash is managed by Staffordshire County Council's Treasury and Pension Fund team in accordance with the Pension Fund's Annual Investment Strategy for cash approved by the Pensions Panel before 31 March each year.

5.3.3 Each investment manager in the Fund with a segregated mandate will have a cash account with the Pension Fund's custodian for £ sterling and possibly foreign currency. Again, cash in these accounts is held primarily for the managers day to day liquidity needs but will fluctuate due to the timing issues of trade settlement, dividend income etc. Also, maximum cash limits are agreed with each manager as part of the Investment Management Agreement and so occasionally cash may increase in line with the managers' views on investment markets.

5.3.4 All cash balances held with the custodian are swept on an overnight basis into highly credit rated (AAA) money market funds, attracting an appropriate rate of interest.

6. The Fund's attitude to risk, including the measurement and management of risk.

6.1 The main strategic risk to the Fund is failing to meet its primary objective of having sufficient funds to meet its liabilities when they become due for payment. This particular risk is managed through the Funding Strategy, which models the probability of a range of possible outcomes occurring (known as monte carlo simulation). The primary reason for the high variability (risk) in outcomes derives from the high proportion of the Fund invested in growth assets, in particular equities. However, in the long term this is considered to deliver returns that are commensurate with the risk and this helps to keep employer contributions lower than they would otherwise be. It also relies upon the strong covenant of the major employing bodies in the Fund which allows for a long term perspective to be taken.

6.2 Risks are inherently reported to the Pensions Panel/Committee as part of routine reporting. However, there is a separate risk register, which has been developed to categorise risk across 4 main areas of focus: Funding, Administration, Governance and Investment. Some key risks from each of the areas, and the way in which they are mitigated, are highlighted in the following paragraphs.

6.3 Funding

6.3.1 **Inflation** - future payments the Fund has to make to pensioners are linked to inflation. Therefore increases in the rate of inflation will increase the value of payments to pensioners. The Fund invests in assets, such as index linked gilts, which are linked to inflation. This reduces risk as it matches the return on these assets to actual increases in inflation.

6.3.2 **Longevity** - future life expectancy is an area which is difficult to forecast accurately but, as people are living longer, the cost to the Fund increases. The Fund has made assumptions on longevity with allowances for future increases. The Fund Actuary also has access to information on the experiences of other local authority pension funds. A substantial portion of this risk has been transferred to employees under LGPS 2014, with the linking of the scheme retirement age to state pension age.

6.3.3 **Changes in the maturity profile of the Fund -** the Fund will mature as the ratio of pensioners and deferred pensioners to active employees grows. This is growing as an issue as a result of structural changes affecting employers in the Fund. Over time it is possible to amend the investment strategy to better match this change but it may result in higher contribution rates for Fund employers.

6.4 Administration

6.4.1 **Maintaining an appropriate level of staffing and resources** – risks are mitigated through monitoring workloads, or backlogs and benchmarking staff numbers. Management review following performance conversations, customer feedback results and complaints monitoring.

6.4.2 **Maintaining complete and accurate records** – risks are mitigated through the use of internal contribution control and financial systems. Other controls include actuarial data checks, scheme of delegation, record keeping checks, actuarial calculation.

6.5 Governance

6.5.1 **Advisors** – there is a risk of failing to have proper arrangements in place to ensure the Fund receives appropriate advice. There is also a need to ensuring there are appropriate processes for the procurement and performance monitoring of advisors. A main investment consultant and 2 independent Advisors have been appointed and regularly attend Committee/Panel meetings with officers. Their performance is monitored by Members on an ongoing basis and ultimately through the performance of the Fund.

6.5.2 **Custody** – there are significant implications of failing to have appropriate custody arrangements in place for liquid markets and illiquid investments (including property). The Fund has appointed a global Custodian for this purpose and the contract contains detailed provisions for safekeeping of assets. The Custodian's credit rating is monitored. Arrangements are reviewed regularly with stock lending subject to a separate agreement and strict controls. The Council's Legal Services keep all property records. And, Limited Partnership agreements for illiquid investments and other documents are held by manager's custodians.

6.6 **Investments**

6.6.1 **Investment in equities** - a large proportion of the Fund is invested in equities which are expected to provide better returns than government bonds over the long term. The risk with this strategy is that equity values fall significantly in the short term and they fail to outperform bonds in the long term. This risk is managed through reliance on the funding strategy which details the positive cash flows of the Fund and the long term agreement of the main employing bodies. This then allows the Fund to take a long-term investment perspective and maintain a high exposure to equities over time for them to deliver the expected returns.

6.6.2 **Interest rates** - changes in interest rates will affect the level of the Fund's liabilities and the value of the Fund's investment in bonds. Little can be done in relation to the change in liabilities; this is a fundamental part of having a Pension Fund. To mitigate the risk of capital loss on bonds from interest rate changes, the Fund's strategic asset allocation allows scope to adjust the bond exposure.

6.6.3 **Pension Fund investment managers underperform their target benchmarks** – as the majority of the Fund is invested through external investment managers, this risk is partially managed by keeping a substantial share of the Fund invested passively and by ensuring that the active managers have complementary styles allied to regular monitoring. Each manager has an investment management agreement in place which sets out the relevant investment benchmark, investment performance target, asset allocation ranges and any investment restrictions. This constrains the investment managers from deviating significantly from the intended approach, while permitting sufficient flexibility to allow the manager to reach their investment performance target.

6.7 In terms of investment risks, the Pensions Committee receives an annual report from the Fund's independent performance measurer to show both performance and risk, where risk is measured as the variability of returns, both against liabilities and against equity or other benchmarks. The Pensions Panel receives reports which monitor such risks quarterly.

6.8 Most of the Fund is invested in liquid investments. Risks are also managed through diversification. For example;

- across asset classes e.g. equities, bonds, property, private equity, hedge funds and cash;

- across managers and styles, geographical areas e.g UK, Overseas, Emerging Markets; and

- through ensuring managers maintain a diversified portfolio of investments within their mandate.

6.9 Overseas **currency** risk is not currently hedged. The long term open nature of the Fund means that it can cope with any volatility from foreign currency and the impact that has on market valuations, in the short term.

6.10 The risks associated with **asset pooling** and the creation of LGPS Central Limited, are addressed in the Fund's risk register. As a company regulated by the Financial Conduct Authority (FCA), LGPS Central Limited is required to have a professional risk and compliance function which reports directly to the company's Audit, Risk and Compliance Committee

7. The authority's approach to investment pooling

7.1 Staffordshire County Council, as the administering authority of the Staffordshire Pension Fund, is one of 8 shareholders in LGPS Central Limited (the Company); the other 7 shareholders being the Local Authority Pension Schemes managed by Cheshire West and Chester Council, Derbyshire County Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire Council, Wolverhampton City Council and Worcestershire County Council.

7.2 The 8 Partner Funds have a regional identity but welcome wider collaboration with other LGPS pools. Whilst, one fund, one vote, is an overriding principle of the pooling arrangement, LGPS Central Limited recognises that Funds have different funding levels and deficit recovery profiles; the company's structure will aim to meet each Fund's needs in this respect.

7.3 The 8 Partner Funds of LGPS Central Limited outlined their key characteristics in forming the company, whereby:

- Assets will be managed by both internal and external investment managers with the split between internal and external management varying over time, as the internal investment resource and resilience is developed;
- Knowledge and expertise will be shared and Partner Funds will be open to challenge and change;
- Partner Funds will listen and be constructive;
- Strong governance, based on openness and transparency, between the Partner Funds and the company will be paramount;
- Costs will be actively managed, be transparent and will be shared fairly between Partner Funds;
- Responsible investment will be an integral part of the investment process.

7.4 LGPS Central Limited was approved by the FCA as an Alternative Investment Fund Manager (AIFM) in December 2017. There is a robust governance structure in place which will provide the 8 Partner Funds and their stakeholders with assurance around the management of their investments and the investment process.

7.5 A Shareholders Forum, comprising one elected Member from each of the 8 Partner Funds will act as the supervisory body of LGPS Central Limited and will fulfil the shareholders' role in ensuring that the company is managed efficiently and effectively. A Joint Committee, set up in accordance with the provisions of the Local Government Act 1972, will be the forum for dealing with common investor issues and for the collective monitoring of the performance of LGPS Central Limited against its objectives (set out in the business case submission). To support the Joint Committee and the Shareholders' Forum, there is also a Practitioners Advisory Forum, consisting of Officers from each of the 8 Partner Funds. This Forum will provide day to day oversight of the company and will monitor its investment performance and investment costs. The Forum will also act as the customer, monitoring levels of customer service and the delivery of wider investor services such as responsible investment and voting.

7.6 With the exception of a working cash balance, to ensure liabilities can be paid as they fall due, the majority of the Fund's assets, will eventually be invested through LGPS Central Limited. Albeit there will be a period of transition and restructuring, it is envisaged that the company will begin to take on the oversight of some assets from April 2018. A range of reporting processes to key stakeholders (which will likely include an annual report on the progress of asset transfers) will need to be developed.

8. The Fund's policy on social, environmental and corporate governance considerations.

8.1 Responsible Investment (RI) is the belief that, over the long term, financial performance can be enhanced through the integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices.

8.2 The Pensions Committee / Panel seeks to ensure that, as far as possible, Responsible Investment (RI) factors (corporate governance, environmental and social factors) are incorporated, together with financial factors, into the investment process across all relevant asset classes. Non financial factors are considered as part of investments to the extent that they are not detrimental to the investment returns. Social impact may be considered, but financial return is the primary concern. The Pension Fund operates a policy of engagement with companies it is invested in, rather than divestment. The Fund believes, that over time, this allows for better social outcomes and ultimately enhanced financial returns.

8.3 To assist them in doing this, the Fund:

8.3.1 endorses the United Nations Principles of Responsible Investing (UNPRI) and seeks to encourage its active equity managers, and all other managers as far as practicable, to sign up to them in order to fully incorporate RI issues into their investment process.

The 6 principles are:

- we will incorporate Environmental Social and Governance issues into investment analysis and decision-making processes;
- we will be active owners and incorporate Environmental Social and Governance issues into our ownership policies and practices;
- we will seek appropriate disclosure on Environmental Social and Governance issues by the entities in which we invest;
- we will promote acceptance and implementation of the Principles within the investment industry;
- we will work together to enhance our effectiveness in implementing the Principles; and

- we will each report on our activities and progress towards implementing the Principles.

As at April 2018, all of the Fund's active equity managers were signed up to UNPRI.

8.3.2 The Fund has been a member of the Local Authority Pension Fund Forum, since 1 April 2013. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting social responsibility and high standards of corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of 72 local authority pension funds with combined assets of over £200 billion. The Pensions Panel receives a copy of the LAPFF quarterly engagement report as part of its meeting papers. It is expected that LGPS Central Limited will also become a member of LAPFF from April 2018, alongside its 8 Partner Funds.

8.4 The Fund has delegated voting and day to day engagement with investee companies to its investment managers. Following the pooling of the Fund's assets in 2018, with those of Partner Funds into LGPS Central Limited, the responsibility for the selection of those investee companies will begin to transfer to LGPS Central Limited and the investment managers appointed by the company. Agreements between LGPS Central Limited and investment managers will need to set out how RI factors are taken into account. LGPS Central Limited has its own Responsible Investment & Engagement Framework which can be summarised through the following beliefs:

- Long Termism: a long-term approach will deliver better returns and the long-term nature of LGPS liabilities allows for a long-term investment horizon;

- Responsible Investment: RI is supportive of risk-adjusted returns over the long term, across all asset classes. RI should be integrated into the investment process of LGPS Central Limited and its investment managers;

- Diversification, risk management and stewardship: Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of RI, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well-diversified portfolios face systemic risk. Systemic risk can be mitigated over the long-term through widespread stewardship and industry participation;

- Fees and remuneration: The management fees of investment managers and the remuneration policies of investee companies are of significance for LGPS Central Limited's clients, particularly in a low-return environment. Fees and remuneration should be aligned with the long-term interests of clients, and value for money is more important than simple minimisation of costs;

- Risk and opportunity: Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is a risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with LGPS Central Limited's objectives and strategy and so long as there is sufficient evidence based upon which to make an investment decision.

- Climate change: Financial markets could be materially impacted by climate change and by the response of climate policy-makers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of like-minded investors where feasible..

8.5 Details of the Fund’s individual investment managers’ corporate governance and socially responsible investment policies, as well as details on the UK Stewardship Code and UNPRI are available at the Staffordshire Pension Fund website at www.staffspf.org.uk

9. The Fund’s policy with regard to stewardship of assets, including the exercise of voting rights.

9.1 The Fund believes that voting is an integral part of Responsible Investment and delegates much of the stewardship of assets and the exercise of voting rights to the its investment managers, and in due course, LGPS Central Limited. Details of resolutions investment managers have voted on and any engagement they have had with companies is noted in the quarterly reports the investment managers produce for the Fund.

9.2 The Pensions Panel receives regular updates from investment managers on details of votes cast on corporate resolutions as part of a quarterly RI report; any points of interest are also highlighted. The Fund also publishes a report on the voting activities carried out by Managers on its behalf as part of its annual report. This can be found on our annual report on the Pension Fund website

https://www.staffspf.org.uk/Finance-and-Investments/Annual-Reports-and-Accounts/SPF-AnnRep-1617-webv2.pdf

9.3 Following the formation of LGPS Central Limited, in 2018, the exercising of voting rights will be a matter for the company. The LGPS Central Limited Responsible Investment and Engagement Framework states that their approach will be as follows:

LGPS Central Limited votes all eligible shares in accordance with its voting policy. This includes the voting shares of portfolios managed externally where those funds are held in segregated accounts. Voting decisions will relate to engagements undertaken during the period in review and a vote might be used as an escalation step in an engagement process, as detailed in the company’s Stewardship Code Compliance Statement. Voting is executed by a third-party provider; the provider also provides analysis and advice. Where LGPS Central Limited invests in externally managed pooled funds, the suitability of the manager’s voting policy is assessed during due diligence, and ongoing disclosure is required. LGPS Central Limited will seek to co-file shareholder resolutions where beneficial to clients’ long-term interests. And LGPS Central Limited has a procedure to recall lent stock in order to vote on significant issues.

9.4 The Fund is a Tier 1 signatory of the Financial Reporting Council’s UK Stewardship Code. Our statement of compliance against 7 key principles is available on the Fund’s website

https://www.staffspf.org.uk/Finance-and-Investments/Corporate-Governance-and-Responsible-Investment/Statement-of-Compliance-UK-Stewardship-Code.pdf

LGPS Central Limited will also become a Tier 1 signatory of the Financial Reporting Council’s UK Stewardship Code.

The Fund’s UK equity investment managers are also current signatories to the Code.

If you have any comments on this Investment Strategy Statement or require any more information on the subjects contained within it, please contact:

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Appendix A – Strategic Asset Allocation – 1 April 2018

		Benchmark Target %	Permitted Tolerance
Growth		**86.0%**	
UK Equities	- Listed	14.0	
Global Equities	- Listed	53.0	
Total Equity		67.0	+/- 3%
Property		10.0	+/- 3%
Private Equity		3.5	
Private Debt Funds		3.5	
Hedge Funds		2.0	
Total Alternatives*		9.0	<10%
Stabilising (including Cash)		**14.0**	
Gilts ***		6.5	
Index-linked Gilts		6.5	
Total Gilts**		13.0	+/- 3%
Cash		1.0	3% maximum
Total		**100.0**	

Notes:

*Subject to the identification of appropriate opportunities, the Pensions Panel have approved that: “An aggregate investment of up to 10% of the Fund may be made in appropriate Alternative Investments.”

** An equally weighted split between long-dated conventional gilts (6.5%) and long-dated index-linked gilts (6.5%) is viewed as the Fund’s benchmark neutral position.

***The Fund disinvested from Gilts in 2012 due to their relatively high valuations. A tactical investment was made in Corporate Bonds pending gilt prices returning to an appropriate level, at which point the Fund will reinvest.

Appendix B - Investment Managers Benchmark Indices and Investment Targets

Active Portfolios

Standard Life Investments	UK Equities	FTSE All Share Index (capped by 2%)	2% above benchmark over rolling 3 year period
JP Morgan Asset Management	Global Equities	MSCI All Countries World Index	2% above benchmark over rolling 3 year period
Longview Partners	Global Equities	MSCI All Countries World Index	2% above benchmark over rolling 3 year period
Insight Asset Management	UK Corporate Bonds	3 month LIBOR	Maintain minimum initial yield of 2.5%
Russell Investments	Emerging Markets Equities	MSCI Emerging Markets Index	To outperform the benchmark
Colliers CRE	Property	IPD UK Monthly Property Index	To outperform the benchmark
Goldman Sachs	Fund of Funds Hedge Fund	3 month LIBOR	6% above benchmark
Various	Private Debt	3 month LIBOR	5% above benchmark
Various	Private Equity	-	-

Indexed (Passive) Portfolios

Legal & General Investment Management	UK Equities	FTSE All Share Index	Match benchmark
Legal & General Investment Managment	Global Equities *	FTSE All World Developed Index	Match benchmark
Legal & General Investment Management	Index-linked Bonds	FTSE-A Over 5 years Index-Linked Gilts Index	Match benchmark
Legal & General Investment Management	FTSE Emerging Markets Index	World Emerging Markets Equity Index	Match benchmark

*investments are made in a range of sub-funds which are periodically rebalanced to reflect the weightings in the FTSE All World Developed Index