Investment Strategy Statement

The Royal Borough of Windsor & Maidenhead ("RBWM") acting as the administering authority for The Royal County of Berkshire Pension Fund, a constituent member of The Local Government Pension Scheme in England & Wales, is required by Section 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 to publish an Investment Strategy Statement.

This is the first such statement published by the Royal Borough and in accordance with the Regulations it will be reviewed regularly and at no more than 3 year intervals.

The Regulations require the administering authority to outline how it meets each of 6 objectives:

1. A requirement to invest fund money in a wide range of instruments.

RBWM's policy is that the pension fund should have a highly diversified investment portfolio spread across different asset classes and different asset managers using differing approaches as appropriate. This ensures that the fund money is invested in a wide range of instruments.

RBWM's Pension Fund Panel has established an Investment Working Group which meets at least quarterly to review the pension fund's performance, asset allocation and ability to meet its target return. In addition the Investment Working Group reviews potential new investment ideas and products and opines whether such ideas are consistent with the investment strategy of the fund and a suitable investment.

The Investment Working Group receives advice from suitably qualified Officers and Independent Strategy Advisers. It also makes use of information derived from investment managers. It will commission specialist work from an external adviser when it believes that neither Officers nor the Independent Strategy Advisers have sufficient experience or expertise in a particular field.

To achieve sufficient diversification the fund divides assets across 4 broad categories: equities, bonds, real assets and absolute return strategies. The size of each bucket will vary depending on investment conditions but each bucket will itself be diversified.

Any investment strategy will have associated risks, including primarily that of not meeting the returns required to ensure the long-term ability of the fund to pay benefits as they fall due. To mitigate these risks the Investment Working Group regularly reviews both the performance and the expected returns from the portfolio to measure whether it has met and is likely to continue to meet its return objective.

In addition the Investment Working Group notes that there will be an increasing gap between contributions received and benefits – i.e. that the fund is cash-flow negative. The Pension Fund Panel does not wish the fund to sell assets to pay benefits. Consequently, it has resolved that a secondary objective of the investment strategy of the fund should be to ensure that there is sufficient investment income generated from the fund's investments to meet any cash-flow shortfall. This has been formalised as a medium term objective to generate a 2% income return across the investment portfolio (i.e. investment income should be at least equivalent to 2% of the fund's assets).

2. The authority's assessment of the suitability of particular investments and types of investments.

In assessing the suitability of investments RBWM takes into account a number of factors including prospective return, risks, concentration or diversification of risk as well as geographic and currency exposures.

Performance benchmarks are set for the fund as a whole (target return UK CPI+4.5%) as well as for individual allocations. The fund's target return is greater than the actuarial discount rate used to value liabilities and has been set at a level sufficient to assist in meeting the funding gap whilst not taking excessive investment risk. Furthermore the Pension Fund Panel has agreed that the fund should aim to achieve its target return with a low level of volatility in those returns. Whilst the fund as a whole has an absolute return target, RBWM recognises that for measuring the performance of individual asset classes and managers performance relative benchmarks may be more appropriate.

In ensuring the suitability of investments RBWM pays regard to both the potential returns and risk (including possible interactions with other investments in the portfolio). RBWM will also consider the reputational risk of being connected with or investing in any investment proposal. RBWM expects its managers where possible to take into account Environmental, Social and Governance issues when making an investment. When making a direct investment the Investment Working Group will pay attention to these issues prior to authorising or recommending an investment.

RBWM measures the returns and the volatility of those returns on a quarterly basis and publishes the results relative to a global group of investment funds with a similar diversified approach to investment on the pension fund web-site.

3. The authority's approach to risk, including the ways in which risks are to be measured and managed

There are a variety of risks to be addressed when managing a pension fund with investment risk being just one of them. In accordance with the principles of Pensions Regulator guidance, in 2016 RBWM commissioned Lincoln Pensions to undertake an Integrated Risk Management ("IRM") study of the Fund. This study looked at the interaction of employer covenant risk – the ability of the employers to meet future contributions, support the investment risk (volatility of returns) and underwrite funding risk (volatility of actuarial deficit). The study concluded that:

- The future contributions estimated by the Fund's Actuary (on the GAD's funding test, i.e. aimed at removing an actuarial deficit over 20 years) are likely to be affordable across the Fund's employers over the next 10 years.
- Some of the Fund's larger employers, notably unitary authorities, do face a number of challenges in the near term which could constrain affordability of future contributions, particularly given their statutory duties to provide adequate services.

In reaching these conclusions, the Fund's assets, liabilities, and its participating employers have been subjected to a number of adverse stress scenarios to assess resilience, which serve to test and constrain affordability. Where employers find themselves under stress, they would be required to identify and utilise financial levers in order to maintain contributions at the level required. Such levers could include support from central Government or other employers, increases in council tax rates, increasing borrowings (subject to restrictions) and pledging assets to the Fund.

As part of the IRM study, Lincoln will now recommend a number of key performance indicators which can be included as part of the normal monitoring framework which will help the RBWM to identify on a timely basis any material risks which may be crystallising. In addition, the RBWM may wish to develop more detailed risk responses and contingency plans as part of their ongoing IRM framework. RBWM will also be seeking to work alongside council representatives as they continue to explore the possibility of formalising the reliance that can be placed on central Government support.

Looking specifically at investment risk RBWM is of the view that the diversification of the pension fund investment portfolio is so broad that investment risk (volatility of returns) is low and will continue to be low. Ex ante volatility

estimates require forecasts by asset class of volatility and correlation and whilst historic data can be used to estimate volatility for listed assets, it is much more difficult for unlisted (e.g. private equity, infrastructure, real estate) assets. Furthermore RBWM note that correlations continually change and in times of financial stress all risk assets trend to a correlation with each other of 1. This "tail risk" means that most risk models either understate risk in times of stress or conservatively over-estimate volatility in normal markets.

The fund targets a long-term return of UK CPI+4.5%; this is sufficient for it to meet its long-term liabilities. In setting the investment strategy, the Pension Fund Panel decided that this return should be achieved with a low degree of volatility – currently the fund targets volatility below 10% per annum over the medium term.

As a patient long-term investor the fund is prepared to ride-out short term volatility in investment markets and may, if suitable opportunities arise, adapt its investment strategy accordingly. At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

4. The authority's approach to pooling investments, including the use of collective investment vehicles.

RBWM has broad experience of investing in pooled vehicles be they collective investment vehicles or other "collectives" such as multi-partner Limited Partnerships.

When deciding whether to invest in a collective scheme or to seek a segregated account RBWM, will pay close attention to:

- The relative costs between a collective investment scheme and a segregated account with a focus on the Total Cost of Ownership
- The suitability and ability of a collective investment scheme to meet the mandate requirements of RBWM.

RBWM recognises the government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures that maximum cost effectiveness for the pension fund. In this respect RBWM exchanged a Letter of Intent with the Local Pensions Partnership ("LPP"). RBWM is reviewing the quantum of assets to be pooled with LPP. It has judged that initially liquid assets will achieve the most instant benefits from pooling. The only liquid assets that Berkshire holds are listed equities in Developed, Emerging and Frontier markets currently (September 2016) these represent 34% of the fund's assets. RBWM believes that it would be uneconomic to pool existing investments in private funds (private debt, private equity and Infrastructure) or real estate funds largely due to the costs of transfer and the inequality created by sharing future returns. When future investments in these types of funds are considered

RBWM will take into account suitable investment opportunities made available by its pooling partners.

When it has become clear that the RBWM has become an investment client of LPP or a shareholder in LPP this document will be updated to provide detail on the structure and governance arrangements of LPP. At that time the RBWM will be able to provide clarity what (if any) services that it will share or jointly procure.

The table below sets out (as at September 2016) the assets that will not initially be invested through a pool:

Asset Class	**% of Fund**
Private Debt	9.3%
Private Equity	10.1%
Absolute Return Funds	14.7%*
Infrastructure	4.8%
Pooled Real Estate Funds	11.6%
Local Assets**	0.3%

* In November 2016 RBWM resolved to reduce this allocation to less than 5% of the fund by 31 December 2017

** Investment in Glassford LLP a private rented accommodation unit in Wokingham

5. 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.

RBWM accepts that stakeholders will have differing views on how social, environmental and corporate governance considerations should be taken into account and believes that no "onesize fits all" policy can possibly be implemented across such a diverse portfolio such as that of the pension fund. Nevertheless RBWM seeks to protect its reputation as an institutional investor and ensures that its investment managers take into account these issues when selecting investments for purchase, retention or sale. RBWM will not place social, environmental or corporate governance restrictions on its managers but relies on them to adhere to best practices in the jurisdictions in which they are based, operate and invest.

6. The authority's policy on the exercising of the rights (including voting rights) attaching to investments.

RBWM expects its managers to exercise all rights attaching to investments including voting in accordance with recognised responsible investment guidelines. Where an asset is owned directly by RBWM on behalf of the pension fund it will exercise all rights and vote shares in a responsible manner. Managers' approaches to incorporating these factors into their investment philosophy and

process are but one of the many factors RBWM takes into account when selecting managers.

RBWM expects its managers to comply with the principles of the UK Stewardship Code and does so itself where holdings are owned directly by the Fund.

RBWM confirms that the Berkshire Pension Fund has no investments in entities that are connected with the authority but if in future it does these will be limited to no more than 5% of the Fund's assets.

The table overleaf sets out the asset class limits as agreed by the Berkshire Pension Fund Panel on 11 April 2016 and amended on 7 November 2016.

Approved by the Berkshire Pension Fund Panel	15 May 2017
Next review date:	April 2018

Annex 1 – Agreed Asset Class Limits

Asset Class	Proposed Max % (11 April 2016)	Amended limit (7 November 2016)	Single Investment Limit % (of fund)
Bonds	**35**		**n/a**
"Conventional" Gilts	25		25% in any single issue
"Index-Linked" Gilts	25		25% in any single issue
Investment Grade Bonds	25		2% in any single issue
Non-investment grade bonds ("High Yield")	10		0.5% in any single issue or 5% in any single fund
Private Fixed Interest	20		5% in any single fund
Convertible Bonds	10		5% in any single fund
Equities	**60**		**n/a**
Developed World Listed Equities	40		5% in any single company
Emerging & Frontier Market Equities	25		5% in any single fund
Private Equity	15		5% in any single fund 0.5% in any single co-investment
Absolute Return ("Hedge Funds")	**20**	**5***	**2.5% in any single fund**
Infrastructure	**15**		**n/a**
Global Infrastructure Funds	10		2.5% in any single fund
UK Infrastructure	5		5% in any single fund
Commodities	**5**		**n/a**
Commodity funds	3		3% in any single fund
Single Commodity Exchange Traded Funds	2		2% in any single commodity
Property	**20**		**n/a**
UK Funds	5		5% in any single fund of funds
Global Funds	10		10% in any single fund of funds
Private Rented Residential	5		3% in any single development
Cash	**15**		**2% in any single "money fund"**

*** Redemptions are currently underway to bring the current investments to within this limit. This is expected to be achieved by 31 December 2017.**