Royal County of Berkshire Pension Fund

Investment Strategy Statement – March 2022

1. Introduction

1.1. This is the Investment Strategy Statement ("ISS") adopted by the Royal County of Berkshire Pension Fund ("the Fund"), which is administered by the Royal Borough of Windsor and Maidenhead ("the Administering Authority").

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to publish this ISS at least every 3 years, it was last approved in March 2019. The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

1.2. This Statement addresses each of the objectives included in the 2016 Regulations:

a) A requirement to invest fund money in a wide range of instruments;

b) The authority's assessment of the suitability of particular investments and types of investment;

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;

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.

Each of the above are dealt with in turn in Section 3 of the ISS

1.3. The Pension Fund Committee (the "Committee") oversees the management of the Fund's assets. Although not trustees, the Members of the Committee owe a fiduciary duty similar to that of trustees to the council-tax payers and guarantors of other scheme employers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4. The relevant terms of reference for the Committee within the Council's Constitution are as follows:

To exercise the general powers and duties of an Administering Authority in the maintenance of the Royal County of Berkshire Pension Fund as may be required in accordance with the Superannuation

Fund Act 1972, The Public Service Pensions Act 2013 and Local Government Pension Scheme Regulations existing under those Acts including, but not restricted to the following;

(i) Setting of the Investment Strategy and Funding Strategy Statements and determination of the Strategic Asset Allocation of the Pension Fund's assets in the light of professional advice and other suitably qualified independent advice, legislative constraints and Codes of Practice.

(ii) Responsibility for the statutory policies and administration of the Royal County of Berkshire Pension Fund maintained by the Administering Authority in accordance with the Local Government Pension Scheme Regulations, The Local Government Pension Scheme (Management of Investment of Funds) Regulations, all other associated legislation and Pension Regulator Codes of Practice.

(iii) Determination of the arrangements for obtaining appropriate investment advice including the appointment of a suitably qualified independent person or persons to give expert advice on Pension Fund investment and management arrangements.

(iv) The periodic review and monitoring of the Pension Fund's investment performance in line with the Advisory and Management Agreement entered into with the Local Pensions Partnership (Investments) Limited (LPPI).

(v) To consider the Annual Report and Accounts of the Fund.

(vi) The reporting of any breaches of the law to the Pensions Regulator.

The Director of Resources (S.151 officer) , the Head of Finance (Deputy S.151 officer), the Head of Pension Fund, the appointed independent advisors and actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to LPPI ("the Investment Manager").

1.5. This ISS will be reviewed at least once every three years as per the statutory guidance, or more frequently as required - in particular following valuations, future asset/liability studies, performance reviews, or legislation changes (i.e. TCFD) which may indicate a need to change investment policy, or significant changes to the Funding Strategy Statement ("FSS").

1.6. RBWM confirms (as per section 7 (4)) that the Royal County of 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.

1.7. RBWM confirms (as per Section 7 (8)) that Royal County of Berkshire Pension Fund will invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund. Section 4 of the ISS sets the strategic allocation target and maximum percentage of total Fund value for fund Cash holdings.

2. Investment Principles

2.1. Governing all investment decisions are the Committee's core investment principles, beliefs and philosophy. They have been established based on the views of the members, capitalising on the expert advice of the Investment Manager, and are listed below:

2.1.1. Investment Governance

a) The Fund has access to the necessary skills, expertise, and resources to manage the whole Fund, as well as managing the Fund's cash needs internally.

b) The Investment Manager, independent advisors and officers are a source of expertise and research to inform and assist the Committee's decisions.

c) The ultimate aim of the Fund's investment activities is to pay pension liabilities when they become due. The Committee will therefore work with the Investment Manager to ensure that the liquidity profile of the Fund is appropriate to ensure the long-term ability of the Fund to meet these obligations.

d) The Fund is continuously improving its governance structure through bespoke training to make well informed strategic allocation decision but acknowledges that it is not possible to achieve optimum market timing.

e) All meetings and investment decisions relating to the setting of Investment Strategy and Strategic Asset Allocation will be minuted.

2.1.2. Long Term Approach

a) The strength of the employers' covenant allows the Fund to take a long-term approach to its investment strategy, approve that the Investment Manager employ less liquid assets and assess performance of the Investment Manager and its agents over a medium to long-term time frame.

b) The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. An important focus for the Fund is to ensure stability of employer contributions over the long-run, absolute-loss would in turn impact the adequacy of employer contributions to meet the Fund's liabilities.

c) Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long-term investor.

d) Over the long term, equities are generally expected to outperform other liquid assets, particularly government bonds and cash.

2.1.3. Environmental, Social and Governance ("ESG") factors

a) Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.

b) All things being equal, well governed companies that manage their business in a responsible manner are generally less vulnerable to downside risk and may therefore produce higher returns over the long term.

c) In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they significantly invest in.

d) The Fund's Responsible Investment Policy reflects the urgency of the threat that ESG risks present to the fund and includes the expectation that the Investment Manager will pursue a policy of active, effective engagement with companies in which ownership stakes are held.

e) The Committee recognises the Administering Authorities net-zero commitment along with that of many of the other scheme employers. The Committee also recognises that a growing number of scheme members want to see significant weight given to these issues. Due consideration to these issues shall be made throughout the investment process.

2.1.4. Asset allocation

a) Allocations to asset classes other than equities, cash and government bonds (e.g., corporate bonds, private markets, property, infrastructure and diversifying strategies) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).

b) Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.

c) In general, allocations to bonds and alternatives are made to achieve additional diversification. As the funding level improves, the Committee may look to certain lower risk strategies to mitigate liability risks and thus reduce the volatility of the Fund's actuarial funding level.

2.1.5. Management Strategies

a) Active management will typically incur higher investment management fees but can provide additional return. Fees should be carefully considered and aligned to the interests of the Fund.

b) Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

c) Employing a range of management styles can reduce the volatility of overall Fund returns.

2.2. The fund has a total return target of 6.5% annually (paragraph 3.2.4), volatility target of no more than 10% per annum (paragraph 3.2.5) while aiming to deliver a minimum investment income yield of 1% to maintain a positive Fund cash-flow position.

2.3. The Fund aims to, where possible, ensure that the portfolio is resilient to risks such as inflation and interest rate movements.

2.4. The Fund aims to keep asset value drawdowns to a minimum, recognising the positive non-investment cashflows through employer deficit recovery payments, plus the target minimum investment income yield. Thus, the fund is forecast to remain cash-flow positive until at least the date of the next review of the ISS.

3. ISS Objectives

3.1. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

3.1.1. Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.

3.1.2. To control risk, the Committee recognises that the Fund should have an investment strategy that has:

a) Exposure to a diverse range of sources of return, such as market return, manager skill and using fewer liquid holdings.
b) Diversity in the asset classes used.
c) Diversity in the approaches to the management of the underlying assets.
d) Adaptability to be able to maintain liquidity for the Fund.

3.1.3. This approach to diversification has seen the fund dividing its assets into seven distinct categories; public equities, fixed income, credit, infrastructure, private equity, real estate and cash. These may be broadly grouped by 4 categories: equities, bonds, real assets and cash. The size of the assets invested in each category will vary, the strategic asset allocation can be found in Section 4 of the ISS. It is important to note that each category is itself diversified. As a result, the Fund's assets are invested in a wide range of instruments.

3.1.4. The main risk the Committee are concerned with is to ensure the long-term ability of the fund to meet pension and other benefit obligations as they fall due. As a result, the Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Committee considers excessive.

3.1.5. The Fund currently has a positive cash flow position, however, the gap between contributions received and benefits paid is widening and consequently the fund will turn cash-flow negative in the near future. The Fund may at times have a negative cash flow position, when the contributions paid will be less than the benefits paid out, and fund liquidity must be closely monitored at all times. This is done through close communication with the Investment Manager regarding the cash flow position and needs. In addition, a portion of the Fund's assets are invested so as to generate a yield, and this is monitored with the Investment Manager on a regular basis.

3.1.6. At all times the Committee seeks to ensure that their investment decisions, including those involving diversification, are in the best long-term interest of Fund beneficiaries and seeks appropriate advice from the Investment Manager and independent investment advisors as appropriate.

3.1.7. To mitigate these risks the Committee regularly (at least on a quarterly basis) reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. The Committee will keep this ISS under review to ensure that it reflects the approaches being taken by the Investment Manager.

3.1.8. The Fund aims to allocate up to 5% of its Assets for investment in local projects which support local areas, subject to all suitability criteria in Objective 7.2(b) being met and the Fund having no conflict in undertaking its fiduciary duty to scheme members and employers.

3.2. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.2.1. Suitability is a critical test for whether a particular investment should be made. When assessing the suitability of investments, the Investment Manager (as delegated by the Committee) considers the following from its due diligence:

a) Prospective return

b) Risk

c) Concentration

d) Risk management qualities the asset has when the portfolio as a whole is considered

e) Geographic and currency exposures

f) Possible correlation and interactions with other assets in the portfolio

g) Whether the management of the asset meets the Fund's ESG criteria.

3.2.2. Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.

3.2.3. The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available for presentation by the Investment Manager or other external body, the Committee will also compare the Fund's asset performance with those of similar funds. The Committee relies on external advice in relation to the collation of the statistics for review.

3.2.4. The Fund targets a long-term absolute return of 6.5% per-annum, a rate advised by the actuary at the last triennial valuation (equivalent to CPI + 3.75% at 31 March 2019). This is termed the 'Actuarial Benchmark', or the required rate of annual return to achieve a 100% funding level at the end of the deficit recovery period without additional deficit recovery (secondary) contributions from employers. This rate is subject to change and shall be revised at the next triennial valuation.

3.2.5. The Fund targets volatility below 10% per annum over the medium term.

3.2.6. Investments are assessed by the Investment Manager to determine suitability considering all factors but not limited to; consideration of the long-term absolute return target, portfolio volatility and the seven suitability indicators as listed in paragraph 3.2.1.

3.3. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

3.3.1. The fund has adopted the CIPFA (2018) framework for managing risks in the LGPS, to assist it in risk identification, assessment, and mitigation. In line with best practice, the Fund maintains a risk register with all known material risks, each with several mitigation measure and several carefully calculated risk scores. The main risks to the Fund, however, are highlighted within the Funding Strategy Statement (FSS).

3.3.2. The Committee recognises that there are several risks involved in the investment of the assets of the Fund amongst which are the following:

Investment Manager risk:

a) Is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and

b) Is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

Geopolitical and currency risks:

a) Are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and

b) Are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification (in the first instance by LPPI) within the existing policy. Plus monitoring significant geopolitical developments and considering their possible impact on the Fund's investments

Solvency and mismatching risk:

a) Are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and

b) Are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

Liquidity risk:

a) Is measured by the level of cash flow required over a specified period; and

b) Managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy.

Custodial risk:

a) Is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

3.3.3. The risks to the Fund concerned with the investment of Fund assets are controlled in the following ways:

a) The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the Investment Manager from deviating significantly from the intended approach while permitting the flexibility to enhance returns.

b) The appointment of more than one manager by the Investment Manager with different mandates and approaches provides for the diversification of manager risk.

3.3.4. The Advisory Management Agreement (AMA) agreement constrain the Investment Manager's actions in areas of particular risk and sets out the respective responsibilities of both the Investment Manager and the Fund.

3.3.5. The Committee are aware investment risk is only one aspect of the risks facing the Fund.

3.3.6. The Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate. Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult. The Committee is also mindful that correlations change over time and at times of stress can be significantly different from when they are in more benign market conditions.

3.3.7. To help manage risk, the Committee (formerly the Investment Working Group) agreed a risk appetite statement on 11 March 2019 and engages the Investment Manager to monitor and manage the risk focusing on four key parameters; funding level, contributions, liquidity and asset allocation. In addition, when carrying out their investment strategy review the Committee also had different investment advisers' assess the level of risk involved.

3.3.8. The investment strategy is considered to have a low degree of volatility.

3.3.9. When reviewing the investment strategy on a quarterly basis the Committee considers advice from their Independent Advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this the risk register is updated on a quarterly basis.

3.3.10. At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

3.4. Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles

3.4.1. The Government requires LGPS funds to pool their investments as a solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost. The Funds approach to pooling arrangements meet the criteria set out in the Local Government Pension Scheme: investment reform criteria and guidance.

3.4.2. The Fund became an investment client of LPPI as part of the Government's pooling agenda on 1 June 2018, outsourcing all active day-to-day asset management activities along with pooling funds into LPPI's investment buckets as appropriate. LPPI was launched in December 2015 by two pension funds; Lancashire and LPFA with the RCBPF later joining in 2018. LPPI now has circa £20bn under direct management, with 8 funds launched as at February 2022.

3.4.3. The Fund has transitioned c.87% of assets to the LPPI pooled investment vehicles as of 7 March 2022. Going forward the Fund will look to transition further assets as and when there are suitable investment opportunities available that meet the needs of the Fund and where there are no excessive cost, legal or other restraints such as those caused by the legacy investments in illiquid private market investments. As such, the remaining c13% is currently held outside of the remit of LPPI pooled funds but are also externally managed by LPPI as the Investment Manager under the AMA. The Committee is aware that certain assets held within the Fund have limited liquidity and disposing/transferring them would come at a significant cost. The position is periodically reviewed by the Investment Manager

3.4.4. LPPI's Investment Committee is responsible for scrutinising the actions of its investment team, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The LPPI Investment Committee meets on a quarterly basis and comprises of 5 members. LPPI hosts a client conference and AGM on an annual basis, to which all members and clients are invited. This allows members/clients such as the Fund the opportunity to hold the Board to account. External independent oversight and assurance of the pool company is provided by the FCA, depositary, external auditors and the Department for Levelling Up, Housing and Communities (DLUHC).

3.5. Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

3.5.1. The Fund released an ESG statement in December 2020 followed by publishing a revised Responsible Investment policy in March 2021 which clearly sets out its purpose to detail the approach that RCBPF aims to follow in integrating Environmental, Social and Governance (ESG) issues into its investments. The Responsible Investment Policy is broadly aligned to that of LPPI's so there are no conflicts between the Fund and its Investment Manager.

3.5.2. A working group (often referred to as the 'task and finish group') for responsible investment (RI) was approved by the Committee in December 2021; The working group is to be established for members, officers and advisors to have a forum to ensure that RI policy remains up to date, fit for purpose and reflects any relevant external developments. A revised RI policy is expected to be brought to the Committee for approval in December 2022.

3.5.3. The guiding Responsible Investment values contained within the Fund's current RI policy are as follows;

a) Consultive

b) Being Proactive

c) Engagement

d) Collaborative

e) Flexible

3.5.4. The key Responsible Investment principles contained within the Fund's current RI policy are as follows;

a) Effectively manage financially material ESG risks to support the requirement to protect returns over the long term;

b) Apply a robust approach to effective stewardship;

c) Seek sustainable returns from well governed and sustainable assets;

d) Responsible investment is core to our skills, knowledge and advice;

e) Seek to innovate, demonstrate and promote RI leadership and ESG best practice;

f) Achieve improvements in ESG through effective partnerships that have robust oversight;

g) Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.

3.5.5. The two core and guiding priorities of the Fund's current Responsible Investment policy are as follows;

a) Climate Change

b) Corporate Governance

3.5.6. Several factors are to be considered in terms of implementation of the Fund's Responsible Investment policy, these are listed as follows, but the Committee advise that the RI policy is read in full to understand how each area of activity is applied as appropriate;

a) Voting globally

b) Engagement through partnership

c) Shareholder litigation

d) Active investing

e) Divestment

3.5.7. Taskforce for Climate Related Financial Disclosures (TCFD) guidance is expected imminently from DLUHC regarding statutory disclosures by the fund, its officers and its committee members. The fund's ISS and RI policies shall be revised as appropriate once due guidance is received.

3.6. Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

3.6.1. The Committee has delegated the Fund's voting rights to the Investment Manager, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the Investment Manager to vote in the best interests of the Fund. In addition, the Fund expects its Investment Manager to work collaboratively with others, particularly other LGPS Investment Managers, if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

3.6.2. As the role of voting and engagement is outsourced to LPPI, the Fund has included the Investment Manager's shareholder voting policy on the Fund's website, which was last approved in March 2021 and shall be kept under review.

3.6.3. The Fund through its participation with LPPI and through other means will work closely with other LGPS Funds to enhance the level of engagement both with external managers and the underlying companies in which invests.

3.6.4. In addition, the Fund:

a) Is a member of the Pension and Lifetime Savings Association (PLSA) and the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners; and

b) Joins wider lobbying activities where appropriate opportunities arise.

3.6.5. Ongoing voting and engagement is covered within the Funds Responsible Investment Policy

3.6.6. The Committee expects LPPI and any other directly appointed asset managers to comply with the Stewardship Code (2020) and this is monitored on a regular basis.

4. Strategic Asset Allocation

4.1. To be updated when LPPI report is available (28 Feb 2022)

4.2. Section 7 (3) (3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.