Royal Borough of Kingston Pension Fund

Investment Strategy Statement

(Approved by the Pension Panel - 8 March 2023)

RBK Investment Strategy Statement (published March 2023)

Introduction and background

The Investment Strategy Statement (ISS) of the Royal Borough of Kingston Pension Fund has been adopted by Kingston Council (the Council) in its capacity as Administering Authority of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.

The Council has delegated to its Pension Fund Panel ("the Panel") "all the powers and duties of the Council in relation to its functions as Administering Authority except for those matters delegated to other Panels of the Council or to an officer."

The ISS has been prepared by the Pension Fund Panel having taken appropriate advice. It meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Panel has consulted on the contents of the Strategy with interested stakeholders. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

Statutory background

Regulation 7(1) of the Regulations requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

Regulation 8 of the Regulations enables the Secretary of State to issue a Direction if s/he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Department of Communities and Local Government.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

Advisers

Regulation 7 of the Regulations requires the Council to take proper advice when making decisions in connection with the investment strategy of the Fund. In addition to the expertise of the members of the Pension Fund Panel and Council officers, such advice is currently taken from:

- Mercer Ltd – investment consultancy
- Actuarial advice, which can have implications for investment strategy, is provided by Hymans Robertson LLP.

The Suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

In order to meet this primary objective the Panel aims to:

- Maximise the returns from investments whilst keeping risk within acceptable levels
- Contribute towards achieving and maintaining a future funding level of 100%
- Enable employer contribution rates to be kept as stable as possible

The Panel has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the 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.

It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

In addition, the Panel monitors its investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Panel also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. Actual against target allocation for each of the main asset classes is recorded within the quarterly performance monitoring report.

The target investment strategy is designed to have an expected return in excess of the discount rate while achieving a level of risk the Panel considers to be appropriate. The aim is to ensure contribution rates are set at a level to attain 100% funding over a rolling 20 year time horizon, as agreed with the Fund Actuary.

Investment beliefs

The Fund's fundamental investment beliefs which inform its strategy and guide its decision making are set out in appendix one to this statement. The Panel has also developed an extensive set of beliefs and policies on responsible investment and climate change which are set out in a separate document approved by the Panel.

Investment in a Variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, debt instruments, infrastructure and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Panel reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Panel seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Panel is proposed, appropriate advice is sought and considered to ensure its suitability.

The Fund's target investment strategy is set out below as well as strategic ranges for each asset class as the Fund works towards the new target allocation over time. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Fund allocation

Asset Class	Strategic Target	Strategic Ranges
Global Equity	40.0	35.0-45.0
Diversified Growth	6.0	4.0-8.0
Total Growth	46.0	39-53
Property	8.0	6-10
Infrastructure	7.5	5.0-10
Multi-asset credit	10.0	8.0-12.0
Private Debt	5.0	3.5-6.5
Impact Private Markets	8.5	6.0-11.0
Total Income	39.0	28.5-49.5
Global Bonds	10.0	8.0-12.0
Absolute Return Bonds	5.0	3.5-6.5
Index Linked Gilts	0.0	0.0-5.0

Total Protection	15.0	11.5-23.5
Cash	0.0	0.0-2.0
Total Fund	**100.0**	**0.0**

Even though we have a nil strategic target for Index Linked Gilts and cash, it is important they do form part of the portfolio from a tactical investment implementation point of view i.e. better value to hold funds in certain asset classes as opposed to cash whilst we await calls for our private markets allocations.

As part of the 31 March 2022 actuarial valuation the Fund Actuary has assumed a discount rate and therefore required rate of return on the Fund assets of 4.2% p.a. This includes an allowance for prudence. The Panel believes that the current investment strategy will generate returns in excess of the required return while taking an appropriate degree of risk and tests the ability of the strategy to meet the Fund's objectives as part of the strategy review process.

Managers

The Panel has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Panel, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Panel is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Panel's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.

- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Fund’s liabilities.

The Panel measures and manages financial mismatch in two ways. As indicated above, the Panel has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The Panel carried out a strategic review following the completion of the 2022 actuarial valuation and reviewed the probability of achieving the Fund’s objectives and the level of risk being taken within the strategy. The Panel assesses risk relative to the strategic benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. The Panel also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Panel also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Panel seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Environmental, social and governance (“ESG”) – The risk that ESG related factors including climate risks reduce the Fund’s ability to generate long-term returns.

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Panel measure and manage asset risks as follows:

The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Panel has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Panel has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Panel also assesses the Fund's currency risk during their risk analysis. Currently the Fund will invest in liquid assets on an unhedged basis, but will aim to invest in illiquid assets on a hedged basis where possible.

The Panel has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager, using a range of approaches for equity investment and having a proportion of the Scheme's assets managed on a passive basis. The Panel assesses the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Details of the Fund's approach to managing ESG risks is set out in the Fund's Responsible Investment Policy including its approach to Climate risk.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Panel seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Panel monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Panel has the power to replace a provider should serious concerns exist.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the London Collective Investment Vehicle (CIV) Pool. The structure and basis on which the London CIV Pool operates is regularly reported to the Government. Regular updates on the London CIV including the performance of the investments held in LCIV funds are reported to the Panel.

Assets to be invested in the Pool

The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. They key criteria for assessment of Pool solutions will be as follows:

- That the Pool enables access to an appropriate solutions that meets the objectives and benchmark criteria set by the Fund

- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

As at 31 March 2022 the Fund has already invested the following assets via the London CIV Pool and in addition had made a commitment to invest in the London CIV Renewable Infrastructure Fund:

Table 2: Investments held in London CIV

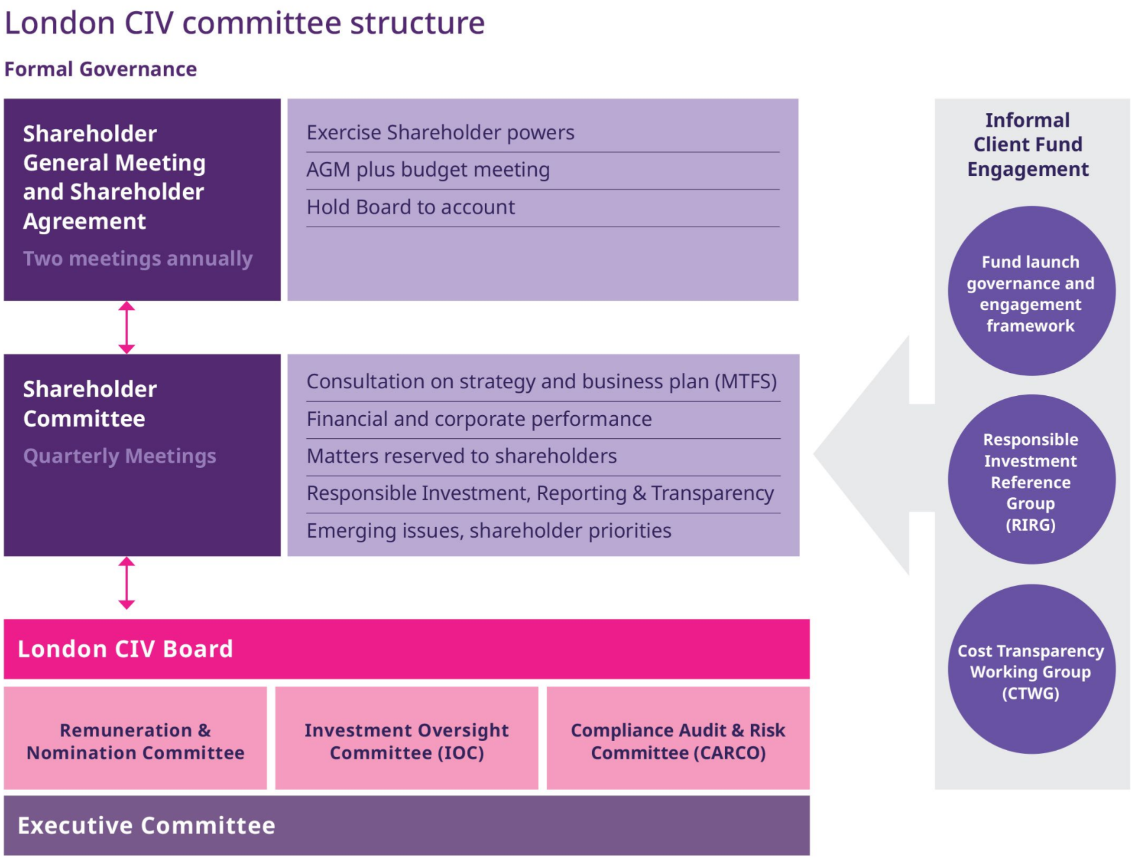
Asset Class	Sub Fund Manager	% of Fund Assets	Benchmark and Performance Objective
Diversified Growth Fund	Pyrford	6.%	RPI RPI+5% over rolling 3 year period (gross of fees)
Diversified Growth Fund	Baillie Gifford	3.6%	UK Base Rate +3.5% Outperform the benchmark
Diversified Growth Fund	Ruffer	4.2%	UK Base Rate +3.5% SONIA +3%
Multi-Asset Credit	CQS / PIMCO	3.2%	SONIA +4.5% Benchmark with NAV volatility of less than 8% p.a over a 4 year rolling period
Private Debt	Pemberton / Churchill	2.0%	Internal Rate of Return 6.0-8.0% over the life of the Fund
Global Bonds	PIMCO	9.2%	Global Aggregate Credit Index (GBP hedged) Outperform the benchmark over a rolling 3 year period
Total Direct Investments		**28.3%**	
Indirect Investments in Life Funds			
Global Equity Passive	Legal & General	14.5%	Solactive L&G ESG Global Markets Index In line with Benchmark
Total LCIV		**42.8%**	

At the time of preparing this statement the Fund holds the following mandates outside of the London CIV. Opportunities for investing in these asset classes through the CIV will be reviewed as and when opportunities arise.

Table 3: Assets held outside the Investment Pool

Asset Class	Sub Fund Manager	% of Fund Assets	Benchmark and Performance Objective	Reasons for not investing via London CIV Pool at this time
Global Equities	Fidelity International	16.8%	MSCI All World Index Outperform by 1.5-2.0% p.a.	Transition Costs would impact Fund returns at this time
Global Equities	Columbia Threadneedle	26.5%	MSCI All World Index Outperform by 2.5-3.0% p.a.	Transition Costs would impact Fund returns at this time
Property	UBS Global Asset Mgt	4.6%	IPD UK All Balanced Funds Outperform Benchmark	Currently no options available through the Pool
Property - Residential	M&G	2.3%	Total Return of 6-8% p.a.	Currently no options available through the Pool
Corporate Bonds	Janus Henderson	3.2%	iBoxx Sterling Non-Gilts Index Outperform benchmark by 0.5% p.a.	Currently no options available through the Pool
Absolute Return Bonds	Janus Henderson	3.7%	Absolute return 6% p.a.	Currently no options available through the Pool

Structure and governance of the London CIV Pool
The current structure and governance framework of the London CIV is set out below:



Source: London CIV

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pension Fund Panel undertakes training on a regular basis and this will include training and information sessions on matters of social responsibility, environmental risk and corporate governance. The Fund has approved a separate Responsible Investment Policy which captures more fully its approach to responsible investment, which is reviewed by the Panel on a regular basis.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London

Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and corporate responsibility in the underlying companies in which it invests. The Fund recognises that ultimately this protects the financial interests of the Fund and its beneficiaries. The Fund has a commitment to actively exercise the ownership rights attached to its investments, reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which they invest, recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society. Further detail on the Fund's Voting policy is set out in the Fund's Responsible Investment Policy.

Stewardship

The Panel has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. The Panel expects both the London CIV Pool and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis.

In addition to the Fund's compliance with the Stewardship Code, the Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues. Further details are set out in the Fund's Responsible Investment Policy.

Appendix 1: Investment Beliefs

Statement of Investment Beliefs

This document sets out the investment beliefs of the Pensions Panel (the "Panel") of the Royal Borough of Kingston as administering authority to the Royal Borough of Kingston Pension Fund (the "Fund").

Belief: Clear and well defined objectives are essential to achieve future success
The Panel is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due. The Panel have considered their own priorities and believe that setting clear objectives for the Fund is key in providing focus for the way the investment strategy is implemented.

Belief: Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection
The Panel understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters.

Belief: Funding and investment strategy are linked
The Panel understands that a number of funding related aspects feed into investment strategy decisions, including maturity, sponsor covenant and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Panel.

Belief: The Panel will take an appropriate level of investment risk
As a long term LGPS Fund the Panel acknowledges the need to take investment risk to ensure the affordability and sustainability of the Fund. However, the level of risk will be set which is aligned to the long term objectives, with a view to taking appropriate and not unnecessary levels of risk and managing funding level volatility.

Belief: Long term investing provides opportunities for enhancing returns
The Panel believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

Belief: Equities are expected to generate superior long term returns
The Panel believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Panel is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

Belief: Diversification can provide more stable investment returns and help

manage volatility The Panel believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Panel believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, absolute return funds, infrastructure and property) will provide the Fund with diversification benefits.

Belief: Fees and costs matter
The Panel recognises that fees and costs reduce the Fund's investment returns. The Panel considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. The Panel will consider paying higher fees in areas where there is real value and manager skill which can help the Fund achieve better or more consistent net of fees returns.

Belief: Funding level movements will be reflected in both the levels of cash contributions and investment risk
Should the funding level of the Fund improve or fall away from current levels the Panel will consider both the approach to funding and investment risk and will not solely look to minimise/maximise contributions or investment risk but find a balanced approach to investment and funding requirements that is aligned to the long term objectives of the Fund.

Beliefs: Market inefficiencies will provide opportunities to add value over time
The Panel believes that at times relative market movements or dislocations will provide opportunities to generate additional returns for the Fund. However, the Panel does not believe that they are best placed to capitalise on these opportunities. The Panel will therefore set mandates with the flexibility for managers to add value through allocation decisions where deemed appropriate. Alongside this the Panel will assess the position of the Fund against the long term strategic benchmark and any requirements to rebalance back toward the long term target.

Belief: Active management can add value but is not guaranteed
The Panel recognises that certain asset classes can only be accessed via active management. The Panel also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Panel will therefore use active management selectively and when doing so will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance will arise, the Panel seeks to minimise the additional risk from active management, and continue to monitor active managers to ensure their mandates remain appropriate for the Fund.

Belief: Responsible Investment is important to the Panel and can have a material impact on the long term performance of its investments
The Panel recognises that Responsible Investment issues incorporating all forms of ESG issues can impact the Fund's returns and reputation. Given this, the Panel aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Panel commits to an ongoing review of its Responsible Investment policy to ensure it reflects latest industry developments and regulations and currently focuses on active engagement through working with managers and bodies such as the LAPFF.

Belief: There is a potential premium to be earned from illiquidity which the Fund can benefit from
The Panel believes that there are some more illiquid asset classes which the Fund can invest in where the Fund will benefit from the illiquid nature of the investments through attractive risk adjusted returns. The Panel will consider what is deemed an appropriate allocation to illiquid assets in the context of the changing net cashflow position of the Fund and will continue to monitor this over time.

Appendix 2:

Compliance with "Myners" Principles"

Principle 1: Effective Decision Making

Compliant: The Royal Borough of Kingston upon Thames has an appointed Pension Fund Panel consisting of elected members and other non-voting representatives and there is a clearly defined decision-making process. The Panel is supported by the Section 151 Officer and other officers on investment and administration issues. It also employs an investment consultant and actuary. Training on investment issues is provided to the Panel as needed. Members of the Panel are also encouraged to attend training sessions offered from time to time by other external bodies.

Principle 2: Clear Objectives

Compliant: The overall objective for the Fund is to keep the employers' contribution rates as low and stable as possible while achieving full funding on an ongoing basis. The Panel has as its starting point the latest actuarial valuation when reviewing the investment arrangements and setting the investment strategy. The Investment Managers are advised of the strategy and have clearly defined investment performance targets. The objectives will be reconsidered following the next actuarial valuation and investment strategy review to ensure they remain appropriate.

Principle 3: Risk and Liabilities

Compliant: The Panel has given due consideration to risks and liabilities as explained in the 'Risk' section above. A strategic asset allocation benchmark has been set for the Fund. The Fund also subscribes to the Pensions and Investments Research Consultants Local Authority Universe as a broad comparison with other local authority schemes.

Principle 4: Performance Assessment

Compliant: The returns of the Investment Managers are measured independently against their performance objectives and they are required to report on investment performance each quarter.

Principle 5: Responsible Ownership

Compliant: The Panel’s policy on Responsible Investment is outlined at the end of this document.

Principle 6: Transparency and Reporting

Compliant: Documents relating to the management of the Pension Fund investments are published on the Council’s website – these include the Investment Strategy Statement, the Annual Report and Accounts, the Funding Strategy Statement and the Governance Compliance Statement