Warwickshire Pension Fund

Investment Strategy Statement

WARWICKSHIRE

pension fund

June 2023

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Introduction and background

This is the Investment Strategy Statement ("ISS") of the Warwickshire Pension Fund ("the Fund"), which is administered by Warwickshire County Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Fund's Investment Sub Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 12 March 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS any Fund money that is not immediately required to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement, Responsible Investment and Climate Risk policies.

The Fund has adopted a set of guiding principles when considering investments and investment strategy. These are outlined in appendix 2 of the statement.

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 for their dependants, on a defined benefits basis. The funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and other risks and the nature of the Fund's liabilities.

The broad approach that the Fund has taken to setting an appropriate investment strategy is as follows:

- In order to generate attractive long term returns on the portfolio, a proportion of the investments will be in growth assets such as equities.
- To help diversify equity risk and assist with cash flow, a proportion of the investments will also be in income assets, such as property and infrastructure, which are structured to deliver both capital growth and a regular income stream.
- To reduce the volatility of investment returns, and to help protect its capital value, the remaining portfolio will be invested in protection assets which are lower risk and have a low correlation with equity and other growth markets.
- The Fund will maintain a sufficient level of liquidity in the investment portfolio, such that it can facilitate the normal cash flow requirements of the scheme, such as paying pensions, without becoming a forced seller of assets.

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

In 2022, the Fund carried out an asset liability modelling exercise in conjunction with the 2022 actuarial valuation. The Fund's liability data from the valuation was used in the modelling, and the implications of adopting a range of alternative contribution and investment strategies were assessed. The implications for the future evolution of the Fund was considered under a wide range of different scenarios.

The Committee assessed the likelihood of achieving their long-term funding target – which was defined at that time as achieving a fully funded position within the next 19 years. They also considered the level of downside risk associated with different strategies by identifying the impact on funding levels of a range of adverse economic/market scenarios.

A summary of the expected returns and volatility for each asset class included in the modelling is included in Appendix 1.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

It is anticipated that a further detailed review of the investment strategy will be carried out during 2025/26 in conjunction with the then proximate actuarial valuation.

In addition, the Committee monitors the 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
- Environmental, Social and Governance (ESG) factors.

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate inappropriately from the target allocations set for each asset class. The Committee has set ranges around the strategic asset allocation and will seek advice on re-balancing the portfolio if any individual asset class moves outside its agreed range.

Investment of money in a wide variety of asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds, loans, property, infrastructure, alternative credit and cash 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 Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee 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 Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's current investment strategy is set out below. The table also includes the control ranges agreed for re-balancing purposes and therefore the maximum percentage of total Fund assets that it will invest in these asset classes. In addition, the Committee have agreed a new long term strategic target asset allocation, reflecting the likely 'direction of travel' between now and the next actuarial valuation. The Fund will take incremental steps in implementing this strategy as suitable investment opportunities become available.

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.

Asset class %	Current Target	Control range	Long term target
UK equities	16.0	+/-2.5	8.0
Developed markets (ex UK) equities	30.0	+/-2.5	28.0
Emerging markets equities	3.0	+/-2.5	6.0
Private equity	4.0	-	6.0
Total Growth	**53.0**	-	**48.0**
Property	10.0	-	10.0
Infrastructure	7.0	-	10.0
Private debt	5.0	-	7.0
Multi-asset credit	10.0	-	10.0
Total Income	**32.0**	-	**37.0**
UK corporate bonds	10.0	+/-1.5	10.0
UK index linked bonds	5.0	+/-0.5	5.0
Total Protection	**15.0**	-	**15.0**
Total	**100.0**	-	**100.0**

Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and a rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

Managers

The Committee 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 Committee, 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 individual investment manager mandates in which the Fund assets are currently invested are as follows:-

Investment Manager	Asset Class	Fund type	Style
Legal and General Investment Manger	Regional Equities, Investment Grade Credit, Index-Linked Bonds	Pooled fund	Passive
Legal and General Investment Manager	Fundamental Global Equity	Pooled fund	Quasi-active
Border to Coast Pensions Partnership (BTC)	UK Equities, Global Equities, Multi-Asset Credit, Investment Grade Credit	Pooled fund	Active
Border to Coast Pensions Partnership (BTC)	Private Equity, Private Debt, Infrastructure	Fund of Funds	Active
Schroders	UK Property	Fund of Funds	Active
Threadneedle	UK Property	Pooled Fund	Active
Alcentra	Private Debt	Pooled Fund	Active
Partners Group	Private Debt	Pooled Fund	Active
Harbourvest	Private Equity	Fund of Funds	Active
Aberdeen Standard	Infrastructure	Pooled Fund	Active
Partners Group	Infrastructure, Private Debt	Pooled fund	Active
Barings	Private Debt	Pooled fund	Active
ICG	Private Debt	Pooled fund	Active
IFM	Infrastructure	Pooled fund	Active

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

The Committee is aware that the Fund has a need to take investment risk 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 Committee's overarching beliefs is to only take as much investment risk as is necessary to achieve its objectives.

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

Key funding risks considered include:

- 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 Committee measures and manages financial mismatch in two ways.

- As indicated above, the Committee 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 Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.
- The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee 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 Committee 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

- Market risk – The risk that the market value of the Fund's assets falls.
- 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 assets denominated in foreign currencies are devalued relative to Sterling (i.e. the currency of the liabilities).
- Environmental, Social and Governance ("ESG") risks – The risk that ESG related factors reduce the Fund's ability to generate long-term returns.
- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.
- Geopolitical risk – The risk of underperformance driven by unexpected changes or events involving political, military or trade factors.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measures and manages asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place re-balancing 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 and other income assets, the Committee 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 Committee also assess the Fund's currency risk during their risk analysis.

Details of the Fund's approach to managing climate and other ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a proportion of the Fund's assets managed on a passive basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

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 Committee 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.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee 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 Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

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

The Fund is a participating scheme in the Border to Coast Pensions Partnership (BTC). The proposed structure and basis on which the BTC pool will operate was set out in the July 2016 submission to Government.

Assets to be invested in the Pool

The Fund's intention is to invest its assets through the BTC pool as and when suitable investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
2. That there is financial benefit to the Fund in investing in the solution offered by the Pool.

BTC launched their first sub-funds in 2018 and there is a timetable in place covering the proposed fund launches over the coming years. The Fund has invested assets in the UK Equity Alpha fund, Global Equity Alpha fund, Investment Grade Credit fund, Multi-Asset Credit fund and Alternatives sub-funds (private equity, infrastructure and private debt).

The Fund retains the following assets outside of the BTC pool:

- Passive investments with Legal and General are currently held through life policies and these will continue to be directly held by the Fund. However, the Fund benefits from fee savings through joint fee negotiations with other partner funds within BTC.
- The Fund has investments in a number of closed end funds as part of its private markets programme. These funds invest in underlying private equity, private debt and infrastructure investments. Each of the individual funds has a fixed life with all assets being returned to investors within a specified period. There is no liquid secondary market for these types of investment – and there is a risk that sales would only be possible at material discounts to net asset value. Therefore, the Committee believes that it is in the best interests of the Fund to retain these investments.

The Fund also retains the option to undertake local impact investing either outside of the pool or inside the pool as best meets Fund objectives.

Any assets which are not invested in the BTC pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2026.

Structure and governance of the BTC Pool

The July 2016 submission to Government of the BTC Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured. Government approved this approach on 12 December 2016.

A Financial Conduct Authority (FCA) regulated company has been established to manage the assets of BTC Funds. The Board of Directors for the new company has been appointed and a senior management team put in place. Based on legal advice describing the options on holding shares in this company, BTC Limited, the Fund holds all voting and non-voting shares rather than the Council. This is because the purpose of the company is to meet the needs of the BTC Funds in complying with the regulations on pooling, rather than for a Council specific purpose.

As the Pool develops, the Fund will include further information in future iterations of the ISS.

ESG Policy

This policy addresses how social, environmental or corporate governance ("ESG") considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors, including climate change, are financially material to the Fund's investments at all stages of the investment process as they have the potential to significantly affect long term investment performance and the ability to achieve long term sustainable returns. The Committee considers the Fund's approach to responsible investment in two key areas:

- Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors into account in investment decision making.
- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters, including climate change, seriously and regularly reviews its policies in this area and its investment managers' approach to ESG.

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. The Fund will also engage collectively with partner funds through its relationship with BTC.

The Fund has developed a separate more in-depth Responsible Investment Policy and Climate Risk Policy. These policies can both be found on the Fund's website. They outline how the Fund implements, monitors and discloses its approach to ESG related risks.

In Q1 2021, the Committee and officers undertook a dedicated training session on the risks climate change poses to the Fund. This included climate change scenario modelling which aimed to illustrate how the Fund's funding position could be impacted in the future by climate and ESG risks under a variety of scenarios. The Fund aims to take further action with regards to ESG governance and oversight, in conjunction with BTC. Work is expected to include; ESG reporting, carbon footprinting, and setting measureable metrics and targets for driving change.

Investments made via BTC are subject to its responsible investment policies that can be found here:

https://www.bordertocoast.org.uk/?dlm_download_category=download-responsibleinvestment-policy

The Committee has reviewed BTC's responsible investment policies and is satisfied they are consistent with the Fund's own policies. The Fund will regularly monitor BTC's responsible investment policies and actively engage with the pool to facilitate change as required.

Historically the Fund's approach to social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers reported on this matter as part of the Fund's annual ESG review.

The Fund does not currently hold any assets which it deems to be social investments.

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

Voting rights

The Committee have approved its own voting policy with the objective of preserving and enhancing long term shareholder value.

Historically the Fund actively voted on the Fund's segregated equity holdings through a voting platform. The Funds segregated equities have now been transitioned into BTC equity pooled funds. As a result, BTC vote on behalf of the Fund in line with the BTC voting and engagement policy. The BTC voting and engagement policy has been reviewed by the Committee.

The funds past voting record can be found here:
https://www.warwickshirepensionfund.org.uk/home/investments/1

The voting record of assets invested via BTC can be found on its website here:
https://www.bordertocoast.org.uk/sustainability/

Both the Fund and BTC's voting policies are reviewed on a regular basis.

Stewardship

An enhanced UK Stewardship Code 2020 took effect on 1 January 2020. The Committee expects both BTC and any directly appointed fund managers to comply with the Stewardship Code and is monitored on an annual basis.

At the FRC's most recent review, BTC were rated as tier 1 signatories.

Appendices

Appendix 1 – Expected returns

Appendix 2 – Investment Guiding Principles

Appendix 1 - Expected returns and volatilities

The table below shows the absolute expected returns (20 year geometric averages), net of fees, and the absolute volatilities (first year's standard deviations) as of 31 March 2023. .

As at 31 March 2023	Expected return % p.a.	Volatility % p.a.
UK equity	7.5	18
Developed markets ex UK equity	7.4	19
Emerging markets equity	7.6	26
Private equity	11.4	34
Property	6.4	15
Private debt	7.8	12
Infrastructure equity	7.9	17
Multi-Asset Credit	6.3	8
Corporate Bonds (A-rated average)	4.7	8
Index Linked Gilts (long)	2.4	9
Cash	3.7	0

Appendix 2 – Investment Guiding Principles

The Fund adopts the following principles when considering investments and investment strategy.

Purpose

1. The Fund's primary purpose is to pay pension benefits to its members.

2. The Committee should focus on ensuring the Fund has sufficient financial resources to meet its obligations, including efficient management of the Fund's cash position.

3. The Committee should ensure that accrued benefits are fully funded (on a 20-year view).

4. The Fund should set a stable and affordable level of contributions for each employer to fund future service benefits. Long-term stability and affordability are more important than the short-term level of contribution rates.

5. The Fund is a long-term investment vehicle which should be managed to generate sustainable investment returns over the long-term. This will be achieved by Responsible Investment ("RI"), which is the practice of integrating consideration of Environmental, Social and Governance ("ESG") factors, including climate change, into the investment process (as further defined by the UN Principles for Responsible Investment – www.unpri.org).

Strategy

6. The Fund should take a long-term view when setting investment strategy although the impact of short-term volatility should also be considered.

7. Strategic asset allocation is the most important determinant of investment outcomes and it is here that the optimum balance of risk and return is set.

8. The Fund's investment strategy and risk appetite should be set with due consideration for its liabilities and funding strategy which is reviewed at each actuarial valuation.

9. The Fund should consider as broad a range of investment opportunities as possible, subject to these being compatible with its risk appetite and RI considerations

10. Investment risk should only be taken where the Committee believes it will be rewarded over the longer term.

11. Appropriate diversification of asset and manager risks reduces overall risk but may lower returns; excessive diversification creates complexity and may increase risk.

12. The Fund invests for the long-term, so ESG factors are expected to have a material impact on investment outcomes.

13. The Committee believes that climate change and the expected transition to a low carbon economy will have a significant long-term impact on the Fund and considers managing the associated financial risks to be part of its fiduciary duty.

14. The Committee believes that the transition to a low carbon economy will create investment opportunities and will mandate the Fund's investment managers to seek out these opportunities.

15. The Committee believes that an RI approach will enhance long-term investment outcomes as well as benefiting the economies and societies in which the Fund invests, and is therefore consistent with the Fund's primary purpose.

16. The Committee believes that, in relation to the management of ESG factors, ongoing engagement with portfolio companies is preferable to divestment. Divestment should remain an option if engagement proves unsuccessful.

Implementation

17. Pooling presents an opportunity to access best in class investments at a low cost. The Fund has a bias to using pool products but will only invest if they are aligned with its investment strategy and offer comparable outcomes to best-in-class external solutions.

18. Both active and passive management strategies, where available, will be considered as implementation options. Active managers will be expected to demonstrate a strong track record of delivering expected returns, with performance assessed over a suitably long period.

19. Foreign currency exposure is inherent to a global portfolio of investments. The Committee believes the strategic hedging of currency exposure from volatile asset classes such as equities has limited benefit to long-term investment returns.

20. Fees and costs incurred within investment manager mandates are important though the primary focus should be on achieving the best risk-adjusted returns net of fees.

21. Systematic rebalancing, subject to appropriate tolerances, can add value over the longer term.

Governance

22. Effective governance not only ensures appropriate levels of control over the Fund but can add value through improved decision making and resource allocation.

23. Staff and members of the Fund's Investment Sub-Committee must have, or have access to, the correct level of skills and investment knowledge to take investment decisions and manage risk effectively.

24. The Fund should retain responsibility for setting RI policy but will delegate much of the implementation to BCPP and its other investment managers. The Committee regularly monitors and evaluates its investment managers' approach to RI.

25. The Fund should only invest with managers who comply with relevant regulations and codes of practice (eg UK Stewardship Code) and have committed to provide full disclosure on ESG issues.

26. The Fund expects its investment managers to invest responsibly and to engage proactively with the management of portfolio companies on key ESG issues, including climate change, wherever it is cost effective to do so. The aim of such engagement should be to enhance investment returns and risk profile by positively influencing portfolio companies on such matters.

27. The Committee believes engagement is more effective when carried out in collaboration with other investors (eg via BCPP or LAPFF).

28. Full disclosure of the Fund’s RI policy and activity strengthens accountability and should be embraced.