London Borough of Enfield Pension Fund

INVESTMENT STRATEGY STATEMENT – March 2024

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Enfield Pension Fund adopted by Enfield 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.

1.2 The Council has delegated to its Pension Policy & Investment Committee ("the Committee") "all the powers and duties of the Council in relation to its functions as Administering Authority except for those matters delegated to other committees of the Council or to an officer."

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

1.4 The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy.

1.5 The Funding strategy statement for the for the Fund informs the investment strategy of the Fund.

2. Statutory background

2.1 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.

3. Directions by the Secretary of State

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

3.2 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.

4. Advisers

4.1 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 Policy & Investment Committee and Council officers such advice is taken from:

- Aon Investments Limited – investment consultancy
- Independent investment consultant member with Fund management experience

- .Actuarial advice, which can have implications for the investment strategy, is provided by Hymans Robertson.

5. Objective of the Fund

5.1 The objective of the Fund is to provide pension and lump sum benefits for scheme members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (i.e., the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.

5.2 The target investment strategy is designed to have an expected return in excess of the discount rate while achieving a level of risk the Committee considers to be appropriate. The aim is to ensure contribution rates are set at a level to attain 100% funding within the timescale agreed with the Fund Actuary and set out in the Funding Strategy Statement.

5.3 The discount rate is the interest rate used to calculate the present value of future cash flows. It reflects the time value of money and the risk associated with the investment. A lower discount rate means that future cash flows are worth more in today's terms, while a higher discount rate means that future cash flows are worth less. The discount rate is used by the Fund Actuary to estimate the value of the Fund's liabilities, which are the benefits promised to the scheme members.

6 Investment beliefs

6.1 The Fund’s fundamental investment beliefs which inform its strategy and guide its decision making are:

- The Fund has a paramount duty to seek to obtain the best possible return on its investments taking into account a properly considered level of risk
- A well-governed and well-managed pension fund will be rewarded by good investment performance in the long term
- Strategic asset allocation is the most significant factor in investment returns and risk; risk is only taken when the Fund believes a commensurate long-term reward will be realised
- Risk is managed via diversification and strong due diligence when selecting investment managers and carefully monitoring performance of those investment managers
- Asset allocation should be strongly influenced by the quantum and nature of the Fund’s liabilities and the Funding Strategy Statement
- Since the lifetime of the liabilities is long dated, the time horizon of the investment strategy should be similarly long term in nature
- Risk of underperformance by active equity managers is mitigated by allocating a significant portion of the Fund’s assets to other asset classes
- Long-term financial performance of companies in which the Fund invests is likely to be enhanced if they follow good practice in their environmental, social and governance policies (ESG)
- Costs need to be properly managed and transparent

7. The suitability of particular investments and types of investments

7.1 The Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for investment strategy.

7.2 The Committee has translated its investment objective 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, risk, and the nature of the Fund's liabilities.

7.3 The approach seeks 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) and the liabilities arising therefrom, together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Fund's projected cash flow requirements.

7.4 Following the triennial valuation in 2022 and the investment strategy review in 2023, the Committee, as advised by Aon, considered its investment strategy alongside its funding objective, and agreed the following structure:

Asset Class	**Target Weighting %**	**Expected Return (per annum)**	**Control Range**
Equities	40	6-9%	30-50%
Bonds	24	5-6%	20-28%
Inflation protection illiquids	7	5-6%	5-10%
Property (UK)	5	6%	8-12%
Private Equity	8		
Infrastructure/PFI	16	7%	15-25%
Cash	-	-	-
Total	**100**		

7.5 The most significant rationale of the structure is to invest the majority of the Fund's assets in "growth assets" i.e., those expected to generate 'excess' returns over the long term. The structure also includes an allocation to "matching" assets, such as index bonds, gilts, and corporate bonds. The investments in property and infrastructure provide diversification. This strategy is aimed to provide returns in excess of the discount rate used to value liabilities in the triennial valuation.

7.6 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

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

7.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate significantly from within the target range. If such a deviation occurs, a rebalancing exercise maybe carried out to ensure that the allocation remains within the range set. Market conditions and outlook for returns will need to be taken into account. Any material deviation from the strategy will be required to be agreed on by the Committee.

7.8 It is intended that the Fund's investment strategy will be reviewed annually. The investment strategy review will typically involve the Committee, in conjunction with its advisers, undertaking an Asset Liability Modelling exercise to understand the risks within the Fund's current investment strategy and establish other potentially suitable investment strategies for the Fund in the future. This approach was adopted in 2024. The investment strategy statement will only be updated should there be a change to the strategic benchmark allocations.

7.9 The results of the 2022 valuation showed a 104% funding level. An asset liability modelling exercise was undertaken in late 2023 and the strategy/strategic asset allocation was amended by the Committee. The Investment Strategy Statement now reflects the outcome of this strategy review.

8 Asset classes

8.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest, index linked and corporate bonds, infrastructure, and property, 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.

8.2 In line with the Regulations, the Council'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 the Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

8.3 With investment returns included, the Fund has a positive cash flow that enables investment in illiquid asset classes e.g., property. The majority of the Fund's assets are highly liquid i.e., can be readily converted into cash, and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. However, as a long-term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

8.4 For most of its investments the Council has delegated to the fund managers responsibility for the selection, retention, and realisation of assets. The Fund retains sufficient cash to meet its liquidity requirements, and cash balances are invested in appropriate interest earning investments pending their use. The investment of these cash balances is managed internally.

9 Fund Managers

9.1 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and are regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles.

9.2 Fund managers are only appointed following a due diligence exercise which is carried out in conjunction with the Funds' investment advisors and will include interviews, background checks, legal checks, and reports from the investment advisors.

9.3 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed, are mostly remunerated through fees based on the value of assets under management.

9.4 The managers are expected to hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.

9.5 The investment management agreement in place for each fund manager, sets out, where relevant, the benchmark and performance targets. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with The Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets.

9.6 As at the date of this ISS the details of the managers appointed by the Committee are set out in Appendix 1

9.7 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through pooled funds, the funds appoint their own custodians.

9.8 Performance targets are generally set on a three-year rolling basis and the Committee monitors manager performance quarterly. Advice is received as required from officers, the professional investment adviser, and the independent advisory member. In addition, the Committee requires all managers to attend a separate manager day when required and called upon, to review and scrutinise performance.

9.9 The Committee also monitors the qualitative performance of the Fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, investment administration and ESG factors

10 Stock lending

10.1 The Committee's current policy is not to engage in stock lending.

11 Approach to risk

11.1 The Committee recognise a number of risks involved in the investment of the assets of the Fund.

11.2 Funding risks

i) As described by the investment objectives, the Fund invests in asset classes which are expected to demonstrate volatility when compared to the development of the Fund's liabilities. This policy is adopted in anticipation of achieving returns above those assumed in the actuarial valuation. The Committee considered a number of investment strategies with varying degrees of risk relative to the Fund's liabilities. In determining an appropriate level of risk (or expected volatility) the Committee considered:

a) The strength of the Employer’s covenant and attitude to risk.
b) Contribution rate volatility.
c) Likely fluctuations in funding level.
d) The required return to restore the funding level over a set period in conjunction with the funding policy.
e) The tolerance to a deterioration in the funding level as a result of taking risk.
f) The term and nature of the Fund’s liabilities.

ii) To monitor the volatility of the Fund’s funding level and the success or otherwise of the investment decisions the Committee monitors on a regular basis:-
a) The return on the assets, the benchmark, and the liabilities.
b) Estimated funding level and how it compares to the expected or targeted funding level.
c) The probability of the Fund achieving its long-term funding objectives.

11.3 Manager risks

The Committee monitors the managers’ performance on a quarterly basis and compares the investment returns with the appropriate performance objectives to ensure continuing acceptable performance. The Committee also examines the risk being run by each of the investment managers. In particular, the performance reporting reviewed by the Committee considers the achieved variation in returns between each manager’s portfolio and its benchmark and compares the level of active manager risk and excess return of each manager against a universe of similar mandates and the benchmark.

11.4 Liquidity risk

The Committee have adopted a strategy that makes do allowance of the need for liquidity of the Fund's assets.

11.5 Concentration risk

The Committee have adopted a strategy that ensures that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments is reduced by diversification of the assets:

- by asset class (Global Equities, Bonds, and Property)
- by region (UK, overseas)
- within asset classes, by the use of a range of products with different risk/return profiles

11.6 Market risk

The failure of investment markets to achieve the rate of investment return assumed by the Committee. This risk is considered by the Committee and its advisors when setting the Fund's investment strategy and on an ongoing basis.

11.7 Operational risk

The risk of fraud, poor advice or acts of negligence. The Committee has sought to minimise such risks by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.

12 Approach to pooling

12.1 The Fund is a participating member in the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and has a range of sub-funds covering liquid and illiquid asset classes

12.2 The Fund (as at December 2023) has 45%of assets pooled with London CIV and will look to transition further liquid and illiquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

12.3 Some illiquid assets in infrastructure, private equity and property will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund.

13 Social, environmental and governance considerations

13.1 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.

13.2 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.

13.3 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 Economic Social Governance (ESG) factors within its investment analysis and decision making.

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

13.5 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.

13.6 The Fund, in preparing and reviewing its Investment Strategy Statement, will consult with interested stakeholders including, but not limited to, Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

14 Exercise of the rights (including voting rights) attaching to investments

14.1 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.

14.2 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund ensures that when investment managers are selected, they incorporate ESG factors into their decision-making process. Voting is delegated to these managers, but they are asked to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

14.3 The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

15 Stewardship

15.1 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the Principles of the Stewardship Code.

15.2 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

15.3 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests. In addition, the Fund gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund's interest.
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16 Compliance with "Myners" Principles

16.1 In Appendix 2 are set out the details of the extent to which the Fund complies with the six updated "Myners" principles set out in the CIPFA publication "Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles".

Appendix 1

Fund Manager Structure (This prescribed in the ISS regulations)

The fund manager structure and investment objectives for each fund manager ("mandates") are as follows (as at January 2024):

Fund manager	Investment objectives
Equities & Private Equity	
BlackRock Advisers UK Ltd (Passively Managed Low Carbon Global Equity)	*To perform in line with the prescribed Equity and Bond indices.*
MFS (Actively Managed Global Equity Portfolio)	*To outperform the MSCI World Index by 4% pa gross of fees over rolling three-year periods.*
London Collective Investment Vehicle (LCIV)	*Manages global equity mandates - JP Morgan, Baillie Gifford, and Longview*
Adam Street Partners (Private Equity Portfolio)	*To outperform the MSCI World Index.*
Bonds	
BlackRock Advisers UK Ltd (Passively Managed Index linked Gilt Portfolios)	*To perform in line with the prescribed Bond indices.*
Insight Bonds	*To generate returns of SONIA 3 month +2%*
LCIV Multi Asset Credit	*To outperform cash +4.5%. Exposures managed by PIMCO and an allocation to the CQS Alternative Credit Fund*
AIL Diversified Liquid Credit	*To generate returns of SONIA +1.5%*
Western Asset Management (Actively Managed corporate Bond Portfolio)	*To outperform the benchmark (composed of a mixture of bond indices) by 0.75% pa gross of fees over rolling three-year periods.*
LCIV Global Bond Fund	*To outperform global bond index.*
Inflation Protection	
M&G Inflation Opportunities Fund	*To outperform the Retail Price Index by 2.5% per annum on a rolling five-year basis.*
CBRE – Inflation protection illiquids	*UK LPI +2.5%pa over a rolling 10-year period*
Property	
Brockton Opportunistic property	*15% net IRR and 1.5xnet multiple*
BlackRock Advisers UK Ltd (Active UK Property Fund)	*To outperform the BNY Mellon CAPS pooled property fund survey median over three and five year periods.*
Legal & General Investment Management Ltd (Active UK Property Fund)	*To outperform the BNY Mellon CAPS pooled property fund survey median over three and five year periods.*

Infrastructure	
Antin	*15% Gross IRR with a gross target of 5% p.a.*
International Public Partnerships Limited *(Private Finance Initiative)*	*To achieve a return of at least 4.5% per annum.*
LCIV Infrastructure Renewable Infrastructure Fund	*Long-term objective is to seek to deliver an IRR (net of fees) of 7 - 10%, with a target yield 3 - 5% per annum.*

Appendix 2

Compliance with “Myners” Principles”

Principle 1: Effective Decision Making
Compliant: The Borough of Enfield has an appointed Pension Fund Committee consisting of elected members and there is a clearly defined decision-making process. The Committee is supported by named offices on investment and administration issues. The Committee has appointed an independent advisory member with experience in investment advice. It also employs an investment consultant and actuary. The Local Pension Board, made up of Fund employers and employees has an oversight and scrutiny function.

Training on investment issues is provided by the Investment Managers at the regular meetings of the Committee. Members of the Committee 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 Committee had as its starting point the latest actuarial valuation when reviewing the investment arrangements to adopt the risk budget and set the investment strategy. The independent investment adviser gave comprehensive training and advice throughout this exercise. The Investment Managers have been 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 Committee 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 & Investment research consultants (PIRC) 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.
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Principle 5: Responsible Ownership
Compliant: The Panel’s policy on Sustainability is detailed in an earlier section of this document. The Investment Managers have been asked to adopt the Institutional Shareholders’ Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents, and to report to the Committee on related activity at the regular meetings.

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.