

Investment Strategy Statement – March 2026

Purpose of the report

To recommend approval of the updated Investment Strategy Statement (“ISS”) for the London Borough of Lewisham Pension Fund (“the Fund”), a copy of which is attached as part of this report.

This paper has been prepared for the Pensions Investment Committee (PIC) and Officers of the London Borough of Lewisham Pension Fund (the “Fund”) to support the updating of the Fund’s Investment Strategy Statement. It has not been prepared for use for any other purpose and should not be so used. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Where the subject of this note refers to legal or tax matters, please note that Hymans Robertson LLP is not qualified to give such advice therefore we recommend that you seek independent advice on these matters.

Background

For many years Local Government Pension Funds were required to maintain a Statement of Investment Principles (“SOLP”). Updated Local Government Pension Scheme (“LGPS”) Investment Regulations became effective on 1 November 2016. These Regulations remove many of the investment restrictions that were formerly in place for the LGPS and, in effect, allow individual Funds considerable discretion about where and how to invest. The Regulations also introduced a requirement for administering authorities to formulate, publish and maintain an Investment Strategy Statement (“ISS”). The updated ISS will replace the ISS dated May 2023.

Statutory background

The investment regulations (Section 7) state the following:

- *An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.*
- *The authority’s investment strategy must include—*
 - *a requirement to invest fund money in a wide variety of investments;*
 - *the authority’s assessment of the suitability of particular investments and types of investments;*
 - *the authority’s approach to risk, including the ways in which risks are to be measured and managed;*
 - *the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;*
 - *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*
 - *the authority’s policy on the exercise of the rights (including voting rights) attaching to investments.*
- *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.*
- *The authority’s investment strategy may 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(e).*
- *The authority must consult such persons as it considers appropriate as to the contents of its investment strategy.*

- *The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.*
- *The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.*

January 2026 Update

This draft statement includes a set of amendments to the ISS discussed at the February 2026 Pensions Investment Committee (“the Committee”) workshop. These are :

- To reflect modest changes to the strategic asset allocation following the 2025 actuarial valuation;
- To include draft wording on the Fund’s high level approach to local investment (the detailed local investment strategy is a matter still being considered by the Committee);
- To reflect the fact that from 1st April, LCIV will assume responsibility to deliver the Fund’s primary investment advice, and for the monitoring and management of all the Fund’s assets;
- To refer to separate Responsible Investment Beliefs, Net Zero Policy and Stewardship policies the Fund has further developed since the previous ISS update.

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For and on behalf of the London Borough of Lewisham Pension Fund PIC.

Investment Strategy Statement: March 2026

Introduction and background

This is the Investment Strategy Statement (“ISS”) of the London Borough of Lewisham Pension Fund (“the Fund”), which is administered by Lewisham 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 Pension Investment Committee (“the PIC”; “the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The PIC acts on the delegated authority of the Administering Authority.

The ISS, which was last approved by the PIC in mid-2023 is subject to periodic review (generally at least every three years and without delay after any significant change in investment policy). The PIC has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The PIC seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s latest Funding Strategy Statement (which can be found on the Resources page of the Fund’s website).

The suitability of particular investments and types of investments

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund’s members under the Local Government Pension Scheme. Against this background, the Fund’s approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

In particular, the Fund seeks to generate investment returns in excess of the discount rate set at the most recent actuarial valuation (i.e. 5.3% p.a. as at 31st March 2025). The Fund has achieved a long-term investment return of just over 7% p.a. and seeks to continue to deliver attractive risk-adjusted returns of around this level over the long-term.

A secondary objective of the portfolio is to maintain sufficient liquidity to support the Fund’s cashflow needs, with a substantial portion of this being derived from income-generating assets within the portfolio.

The Fund’s funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The PIC 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 employer 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 PIC has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (see Table 1 below). It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. This benchmark is consistent with the PIC’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. 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 intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

From 1st April, 2026, the London Collective Investment Vehicle ("LCIV") assumes responsibility for the management and oversight of all of the Fund's assets, including what will then be referred to as legacy assets (i.e. funds currently managed by providers other than LCIV). Within each major market the Fund's investment manager will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. An Investment Management Agreement is in place with LCIV, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions. It is understood that LCIV will retain the same parameters legacy fund managers currently manage the Fund's allocations to.

In addition, the PIC monitors 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
- A broad variety of environmental, social and governance ("ESG") matters, with particular focus on climate change.

The PIC also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. Table 1 below shows the target asset allocation and range around this target for each of the Fund's mandates.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including, but not limited to, equities and fixed interest and index linked bonds, cash, property 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 PIC reviews the nature of the Fund's investments on a regular basis, with particular reference to suitability and diversification. The PIC 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 PIC is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. 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.

In order to avoid excessive rebalancing, the assets will typically not be brought fully back to the absolute strategic benchmark, but to a position that is approximately half way between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.

Where a mandate is underweight and breaches its tolerance level, the Fund's surplus cash flow will be used to bring assets back to within tolerance. If the surplus cash is not sufficient, the rebalancing will be undertaken by

selling funds from the mandates that are most overweight, and using the proceeds to purchase assets that are the most underweight.

Where a mandate is overweight and breaches its tolerance level, assets will be disinvested from the mandate, and the proceeds reinvested in the most underweight mandate. Where multiple mandates are underweight, the proceeds will be re-invested in relative proportions to bring the respective mandates to a similar level of underweight. This rebalancing is managed by the Fund's Officers.

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Table 1: Fund allocation reflecting the recommended changes following the 2025 actuarial valuation

Asset Class	LCIV asset mapping	Underlying Investment Manager	Benchmark	Target allocation	Tolerance Range
Private equity	Private equity	HarbourVest	MSCI AC World Development Index	3.0%	0%-6%*
Listed equity	Listed equity	Storebrand Global ESG Plus (developed markets)	MSCI World Index	47.0%	44%-50%
Listed equity	Listed equity	Storebrand Global ESG Plus (emerging markets)	MSCI EM Index		
Listed equity	Listed equity	LCIV Passive Equity Progressive Paris Aligned Fund	S&P Developed Ex-Korea LargeMidCap Net-Zero 2050 Paris-Aligned ESG Index		
		Total Growth		50%	
Property	Property / Real estate	Schroders Property	MSCI Pooled Property Fund Index	7.5%	4.5%-10.5%*
Property	Property / Real estate	LGIM Build to Rent	Total return of 7-9% p.a. (net of fees)		
Infrastructure	Infrastructure	JP Morgan Infrastructure	Hurdle rate of 7% p.a.	7.5%	4.5%-10.5%*
Infrastructure	Infrastructure	LCIV Renewable Infrastructure	Hurdle rate of 7% p.a.		
Real Assets (natural capital)	Other alternatives	LCIV Nature-based Solutions Fund	N/A	5.0%	2%-8%*
Alternative Credit	Private credit	Pemberton European Mid-Market Debt Fund II	SONIA + 6%	6.0%	3%-9%*
Alternative Credit	Private credit	Partners Group MAC	SONIA + 5%		
Alternative Credit	Private credit	LCIV Private Debt Fund	6-8% net IRR		
Fixed Income	Credit	LCIV Buy and Maintain Credit*	TBC	5.0%	3%-7%
		Total Income		31%	
Fixed Income	Credit	BlackRock – Corporate Bonds	iBoxx Sterling Non-Gilts Index	6.33%	4%-8%
Fixed Income	UK Government bonds	BlackRock – Fixed interest gilts	FTSE Actuaries UK Conventional Gilts over 15	6.33%	4%-8%
Fixed Income	UK Government bonds	BlackRock – Index-linked gilts	FTSE Actuaries UK Index-Linked Gilts over 5 Years Index	6.33%	4%-8%
		Total Protection		19%	

		Cash		0.0%	
		Total Fund		100.0%	

* Rebalancing is not readily available for these mandates, given their structure (pre-arranged commitments and buy-and hold), however it is expected that the Fund will remain within the broad ranges above over the long-term. The exception is LGIM Build to Rent Fund, which converted to an open-ended structure at the end of 2022, at which point rebalancing opportunities may arise. LCIV is the London Collective Investment Vehicle, the investment pool for London-based Local Government Pension Schemes. The precise nature of the B&M credit fund with LCIV has yet to be determined (there are 3 funds available to select from). This is subject to further discussion with the Committee, however the target of 5% will remain.

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Managers

Historically, the PIC appointed a number of investment managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The PIC, after seeking appropriate investment advice, agreed benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers hold a mix of investments which reflects 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. The manager of the index-tracking funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

From 1st April, 2026, LCIV assumes primary responsibility for the delivery of investment advice and the management and monitoring of all the Fund's assets.

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

The PIC is aware that the Fund has a need to take risk (in particular through 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 has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

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 the 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 (including legacy managers), possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The PIC measures and manages financial mismatch in two ways. As indicated above, the PIC 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. This analysis was revisited as part of the 2025 valuation process, with only modest changes to allocation being made (reflected in Table 1 above). The PIC assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The PIC also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The PIC 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 PIC 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

The following is a list of some of the key asset risks inherent within the Fund's investments. Note this list is not exhaustive.

- 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. The current portfolio has been constructed to ensure sufficient diversification of assets; LCIV should ensure this approach continues as it assumes responsibility for investment decisions from 1st April 2026.
- 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 reduce the Fund's ability to generate the long-term returns.
- Manager underperformance – The failure by the fund manager to achieve the rate of investment return assumed in setting their mandates. In particular, with LCIV assuming the role of single investment manager as of 1st April, the Fund recognises the risk of reliance on one organisation to assume responsibility for the management of the Fund's whole portfolio of assets. While LCIV is recruiting to boost resource, there may be initial capacity restraints and potential for operational risks to arise.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The PIC has put in place rebalancing arrangements to ensure the Fund's actual allocation does not deviate substantially from its target (see Table 1) for sustained periods. 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 PIC 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 PIC also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

The PIC assesses LCIV's performance on a regular basis, and will engage constructively with LCIV 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 PIC 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 PIC 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 LCIV as

appropriate (e.g. custody risk in relation to pooled funds). The PIC has the power to replace a service provider should serious concerns persist.

A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in appendix 1. A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

Local Investment

Consistent with the Government's Fit for the Future requirements for LGPS local investment, the Fund is committed to supporting sustainable economic development to benefit the community within Lewisham and beyond.

The precise definition of local investment is currently under consideration, however, it is likely to mean capital deployed within Lewisham and surrounding administering authorities, alongside the wider LCIV catchment area.

The Fund will consider a diverse range of investment opportunities that meet the definition of local investment (noting the Fund has existing investments situated in and around London) that also bring positive economic or wider societal benefits to the community. The Fund has set a target percentage allocation to local investment of 1-3% of total Fund assets.

These investments will be made in partnership with LCIV, which will be responsible for the due diligence of any direct investments, and of any externally appointed local investment sub-managers.

As part of its existing program of strong governance, and in line with new requirements (recognising that statutory guidance in this area has yet to be produced), the Fund will report on its local investments, in particular the positive impacts they are having on the community.

The Fund recognises its requirement to support this initiative, and will publish full details of its approach to local investment in subsequent updates to the ISS.

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

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The PIC consider 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 on its investments.
- **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 Fund is committed to being a long term, responsible 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 PIC undertakes training on a regular basis and this will include on training and information sessions on matters of social, environmental and corporate governance. The PIC approved a revised set of Responsible Investment Beliefs in late 2024.

The Fund requires LCIV 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 LCIV to follow good practice and use its influence as a major institutional investor and long-term steward of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects LCIV 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 LCIV to integrate material ESG factors within its investment analysis and decision making – and have an ability to provide clear reporting on ESG matters, in particular climate metrics needed by the Fund in support of its climate ambitions.

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 LCIV 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. Climate change is a material financial risk and must be considered, alongside the opportunity set created by low carbon transition across all asset classes. The Fund commenced its journey to seek attractive opportunities associated with the low carbon transition for its equity holdings, and will expand this across other asset classes in due course as appropriate. In addition, the Fund has developed a Net Zero policy, given the critical nature of climate change and its expected impact on the sustainability of the Fund in the long-term. The Net Zero policy can be found in the Resources page of the Fund's website: <https://www.lewishampensions.org/resources/lewisham-pension-fund-climate-transition-to-net-zero-policy/>

This policy will be reviewed periodically, with the metrics and targets contained in it monitored and reported regularly to the Committee.

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

The most recent example of this was via a comprehensive survey that was sent to all Fund members. The survey covered a broad range of topics from each of the three key categories of environmental, social and governance themes. A detailed analysis of this was presented to the Committee, which supported a review of the Fund's existing Responsible Investment Beliefs. A copy of these is available on the Resources page of the Fund's website.

Stewardship and engagement

The Fund recognises the importance of its role as responsible 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 end beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments, reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it invests, recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and wider society.

The PIC has delegated the exercise of voting rights to LCIV on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The PIC monitor the voting decisions made by LCIV on an annual basis.

The Fund expects LCIV and any sub-managers it appoints 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 LCIV to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

Chartered Institute of Public Finance (“CIPFA”) Pensions Panel Principles for Investment Decision Making set out the six principles of good investment practice issued by Government (Myners principles). The extent to which the Fund complies is set out in Appendix 2.

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 invests.

In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners.

Since the previous update to the ISS, the Fund has created its own Engagement Policy. The two main objectives of engagement with LCIV and legacy managers on how they embed RI into their processes is as follows:

1. To monitor their activity as it relates to the Net Zero Policy of the Fund and assess how effective the manager has been implementing the transition to Net Zero carbon in Fund’s investments.
2. To enhance the wider ESG credentials of the Fund’s investments in aggregate over time and reduce the chance of allocating capital to companies that may be riskier from an ESG perspective.

Engagement and investment processes in support of RI objectives can, for example include investigation and consideration of fund managers’ policies with underlying investee companies and of index criteria in stock selection. Further details. Further details on the Fund’s Engagement Policy can be found at the Resource page of the Fund’s website.

Appendix 1 – Approach to risk

Investment invariably involves an element of risk. The Council in recognition of this has adopted a number of strategies to mitigate the impact of unavoidable risks on the Fund. The Fund is subject to the following key risks, amongst others:

Funding Risk: Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement (“FSS”) is prepared every three years as part of the triennial valuation and the Council monitors the Fund’s investment strategy and performance relative to the growth in the liabilities at least annually.

Financial mismatch risk: The Council recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate the risk an investment strategy is set which provides exposure to assets providing inflation protected growth as well as cash flow generating assets that match the Fund’s liabilities.

Liquidity/Cash flow Risk: Investments are held until such time as they are required to fund payment of pensions. The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

Manager Risk: LCIV or any of its sub-fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Council when fund managers are selected and their performance is reviewed regularly by the PIC as part of the manager monitoring process. However, adopting a strategy largely based on index-tracking investment for a substantial portion of the Fund’s assets makes the overall exposure to this risk relatively low.

Concentration Risk: This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund’s performance. The Council attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly and following a regular fund manager review process. This risk will be higher from 1st April given the reliance on a single investment manager, LCIV.

Demographic Risk: This relates to the uncertainty around longevity. The Council recognises there are effectively few viable options (given cost, complexity and governance requirements) to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

Counterparty Risk: This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. The Council has set guidelines with LCIV and its custodian to limit its exposure to counterparty risk by specifying minimum credit ratings and credit limits. It has similarly applied this strict criteria within its stock lending agreements to mitigate counterparty risk in these transactions.

Currency Risk: The strategic asset allocation adopted by the Council provides for an element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance. LCIV has discretion to hedge currencies to protect returns. The Council recognises that it can adopt a long term perspective on investments and consequently is able to absorb short term fluctuations in exchange rates. However, the Council continues to monitor developments in the currency hedging environment to determine if adoption of currency hedging is beneficial.

Environmental, Social, Governance and Ethical Issues Risk: The Council recognises that ESG and ethical issues have the potential to impact on the long term financial viability of an organisation. The Council monitors both developments within the investment environment and the voting of LCIV through its participation in the LAPFF. The

PIC also takes into consideration the views of its members, through periodic surveys. The results of these surveys inform engagement priorities and may influence the Fund's overall responsible investment beliefs.

Appendix 2 – Compliance with Chartered Institute of Public Finance and Accountancy (“CIPFA”) Principles for Investment

Regulations require administering authorities to assess the extent to which they comply with the CIPFA Principles for Investment Decision-Making, and provide reasons for non-compliance. These reflect the principles of good investment practice issued by government in response to the Myners review. The six principles which underpin best practice and the assessment of Lewisham's compliance is as set out below.

Principle 1: Effective Decision-Making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Compliance statement - full compliance

- Decisions are taken by the PIC based on advice from officers, and the investment consultant. LCIV and other investment managers are employed who are responsible for day to day investment decisions.
- The Council will maintain a training and development programme for Members of the PIC.
- There is a clear 'Conflicts of interest policy' and Members must make declarations of interest before each meeting of the PIC or as matters arise during the course of the PIC business.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and LCIV.

Compliance statement – full compliance

- The PIC has set its investment objectives in the context of an actuarial review that considered the assets and liabilities and maturity profile of the fund, and it approves a Funding Strategy Statement for the Fund.
- The PIC has set a Fund specific benchmark, diversified to ensure that market volatility in the Fund's value is reduced through holding a proportion of the Fund's assets in alternative assets such as property, private equity, corporate credit, commodities and bonds.
- LCIV has a specific benchmark and target set for it and a time horizon, typically three years, for being measured against their target.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Compliance statement – full compliance

- The Funding Strategy Statement and triennial valuation are written specifically with the structure of liabilities in mind and also address risks to the Fund.
- The Administering Authority's strategy recognises the relatively immature liabilities of the Fund, the security of members' benefits and the secure nature of most employers' covenants. The strength of the sponsor

covenant and the risk of sponsor default combined mean that the scheme's actuary can set a recovery period of 20 years.

- When setting the common contribution rate the Actuary is charged with increasing the future service rate by an amount equal to the Fund's solvency target to ensure a fully funded scheme (known as a "past service adjustment").

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers (i.e. primarily LCIV) and other advisers. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Compliance statement – full compliance

- The PIC reviews investment performance on a quarterly basis and cross examines LCIV regularly, as frequent as the PIC views this necessary..
- The Fund employs the services of a Custodian, which produces quarterly reports on performance to the Fund.

Principle 5: Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Investment Strategy Statement. Trustees should report periodically to members on the discharge of such responsibilities.

Compliance statement – Full compliance

- This Investment Strategy Statement sets out the Fund's approach to Responsible Investment and Corporate Governance.
- PIC has delegated responsibility for the exercise of voting rights and engagement with companies to LCIV. Within that delegation LCIV is expected to support ethical and socially responsible corporate governance on the basis that in the longer term this will enhance the value of the companies concerned.
- LCIV is held to account on their voting records.
- The Fund is a member of the Local Authority Pension Fund Forum

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate. The report should contain commentary on how any commitments made in the Investment Strategy Statement have been progressed during the reporting period.

Compliance statement – full compliance

- This Investment Strategy Statement sets out the responsibilities of the PIC, its advisers and investment manager

- The PIC papers are available for public inspection and are available on the Council's website. Formal statements such as the Communications Policy, Funding Strategy Statement and Triennial Valuation are reported on at PIC meetings and are available on the web.
- A comprehensive annual pensioner's newsletter is produced and distributed to all pensioners of the Fund.

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