

# Investment Strategy Statement

## INVESTMENT STRATEGY STATEMENT

### INTRODUCTION

The Lincolnshire Pension Fund (“the Fund”), which is administered by Lincolnshire County Council (“the Administering Authority”), is required to maintain an Investment Strategy Statement (“ISS”) in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The Administering Authority has delegated all its functions as administering authority to the Pensions Committee (“the Committee”). The ISS has been agreed by the Committee having taken advice from the Investment Consultant and Pension Fund Manager.

The ISS, which was last approved by the Committee on 21 March 2019, 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 Fund is also required to maintain a Funding Strategy Statements (“FSS”) in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended). The FSS, which was last approved by the Pensions Committee on 19 March 2020, complies with these Regulations.

### INVESTMENT STRATEGY

The primary objective of the Lincolnshire Pension Fund is to provide pension benefits for members on their retirement and/or benefits on death, whether before or after retirement, and for their dependents.

The Committee aims to fund the benefits 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 and final salary (pre 1 April 2014) and/or the accumulation of individual years built up through the career average pension scheme (post 1 April 2014) and will take account of future inflation increases. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

#### Investment Beliefs

These beliefs form the foundation of discussions, and assist decisions, regarding the structure of the Fund and the strategic asset allocation. In addition, they are used to ensure that new members on the Pensions Committee understand previous investment decisions taken.

**Belief 1:**

**The Fund should take no more investment risk than is necessary to have a reasonable chance of achieving its objectives, and only where the Committee believes it will be rewarded over the longer term.**

It is recognised that investment risk is needed in the Fund to generate the required returns, however this needs to be considered on an on-going basis to ensure it is appropriate (i.e. not too high or too low) given the Fund's objectives

**Belief 2:**

**Funding and investment strategy are linked; as the funding position improves, the level of investment risk should be reduced.**

As the Fund moves closer to full funding (i.e. 100% assets to meet liabilities on an appropriately prudent assumption of investment return) then it is expected that the level of risk will be adjusted accordingly.

**Belief 3:**

**Investing in illiquid assets provides opportunities for enhancing returns, and investing in alternative asset classes helps to diversify the Fund structure.**

The Committee accepts that by "locking away" funds for longer periods of time, the Fund should expect to be compensated for the lack of liquidity in the form of higher expected returns. However it is understood that this is not suitable for all the assets in the Fund. The Fund's investments should be diversified by combining assets with different risk, return and liquidity characteristics, whilst maintaining realistic expectations about the potential for sources of return to become correlated under market stress. The Committee believes an appropriate portion of the Fund should be invested in non-core asset classes, i.e. alternative assets, to provide diversification and reduce overall volatility of returns.

**Belief 4:**

**Passive and active management both have roles to play in the Fund's structure; passive to deliver low cost asset class exposure and active to add potential value, understanding that active managers' success should be measured over a reasonable timeframe.**

The Committee believes that active managers can add a return premium over investment markets, over the longer term, but accept that this has a cost. Therefore this is balanced with allocations to passive management to produce market returns at a very low cost.

**Belief 5:**

**Environmental, social and governance (ESG) issues are important to the long term success of the Fund.**

The Committee believes that it should act as a responsible owner across all of its investments and that ESG issues and considerations have a financial impact on the long term performance of the Fund. The Fund works with managers and other organisations to understand the potential impact of the risks and opportunities relating to ESG matters.

**Belief 6:**

**Although fees and costs matter, it is the expected return net of all fees and costs that should be the Committee's focus, however transparency and understanding of costs is important.**

The cost of accessing different asset classes and different management styles must be understood to ensure that the Fund is obtaining value for money, however the expected net return is the most important consideration when assessing investment opportunities and monitoring investment performance. The Fund expects its managers to have signed up to the Cost Transparency Code, and it also participates in fee benchmarking to assess the fees being paid relative to other pension schemes.

**Investment of money in a wide variety of investments**

It is the Pensions Committee's policy to invest the assets of the Lincolnshire Pension Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Pensions Committee takes a long term approach to investment and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Pension Fund.

The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives, either directly or through pooled investments. The Fund may also make use of derivatives, either directly or in pooled investments, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund's approved strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without reference to the Pensions Committee, and the maximum percentage of total Fund value that can be invested in these asset classes. The asset allocation 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 risk and the nature of the Fund's liabilities. The current allocation may differ in the interim as assets are transferred to the sub funds within Border to Coast.

<b>Asset class</b>	<b>Strategic allocation</b>	<b>Range</b>	<b>Maximum</b>
Equity Assets	55%	+/- 7%	62%
UK equities	15%	+/- 2%	17%
Global equities	40%	+/- 5%	45%
Diversifying Growth Assets	31.5%	+/- 4.5%	36%
Diversified Alternatives (incl. infrastructure and multi asset credit)	21%	+/- 3%	24%
Property	10.5%	+/- 1.5%	12%
Protection Assets	13.5%	+/- 2%	15.5%
Fixed Income	12.5%	+/- 1.5%	14%
Cash	1%	+/- 0.5%	1.5%

The Regulations do not permit more than 5% of the Fund's value 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 investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment consultant and independent advisor.

The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

The Pensions Committee regularly reviews the suitability of the asset allocation, following advice from the officers, investment consultant and independent advisor.

It is intended that the Fund's investment strategy will be reviewed at least every three years, following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

Asset class	Benchmark
<b>Equity Assets</b>	
UK Equities	FTSE All Share
Global Equities	MSCI All Countries World Index
<b>Diversifying Growth Assets</b>	
Alternatives	LIBOR 3 Months + 4%
Property	
Property Venture	7% Per Annum
Property Unit Trusts	UK IPD Monthly Index
Infrastructure	6% Per Annum
Multi Asset Credit	LIBOR +4%
<b>Protection Assets</b>	
UK Gilts	FTSE UK Gilts All Stocks Index
Corporate Bonds	iBoxx £ Non-Gilts Index
UK Index Linked	FTSE UK Gilts Index-Linked Over 5 Years Index
Cash	LIBOR 3 Months

### The suitability of particular investments and types of investments

The actuarial valuation, at 31 March 2019, was prepared on the basis of an expected investment return of 4% p.a., based on a 71% likelihood of that return being achieved over the next 20 years, and assuming inflation (CPI) to be 2.3%. The Pensions Committee has set the investment objective of producing a long term return of 0.75% p.a. above the strategic benchmark.

In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's custodian on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of overall fund performance.

### The approach to risk

The Committee is aware that the Fund has a need to take 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.

The principal risks affecting the Fund are set out below:

Risk	Description	Mitigants
<b>Market</b>	Value of an investment decreases as a result of changing market conditions.	Strategic asset allocation, with suitable diversification and appropriate ranges, determined on a triennial basis.  The Committee has put in place rebalancing arrangements to ensure the Funds actual allocation does not deviate substantially from its target.
<b>Performance</b>	The Fund's investment managers fail to deliver returns in line with the underlying asset classes.	Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis.  Investment Mangers present to the Committee on an annual basis.
<b>Valuation</b>	Valuations disclosed in the financial statements, particularly for unquoted investments, are not reflective of the value that could be achieved on disposal.	The valuation of investments is derived using a conservative valuation methodology and, where applicable, market observable data.
<b>Liquidity</b>	The Fund is not able to meet its financial obligations as they fall due or can do so only at an excessive cost.	The Fund maintains sufficient liquid funds at all times to ensure that it can meet its financial obligations.
<b>Interest rate</b>	A change in interest rates will result in a change in the valuation of the Fund's assets and liabilities.	The Fund regularly monitors its exposure to interest rates, and may consider hedging where appropriate.
<b>Foreign exchange</b>	An adverse movement in foreign exchange rates will impact on the value of the Fund's investments.	The Fund regularly monitors its foreign exchange exposure.
<b>Demographic</b>	Changes, such as increased longevity or ill-health retirement, will increase the value of the Fund's liabilities.	Demographic assumptions are conservative, regularly monitored, and reviewed on a triennial basis.
<b>Regulatory</b>	Changes to regulations and	The Fund ensures that it is

	guidance may increase the cost of administering the Fund or increase the value of the Fund’s liabilities.	aware of any actual or potential changes to regulations and guidance and will participate in consultations where appropriate.
<b>Governance</b>	The administering authority is unaware of changes to the Fund’s membership which increases the value of its liabilities.	The Fund regularly monitors membership information and communicates with employers.

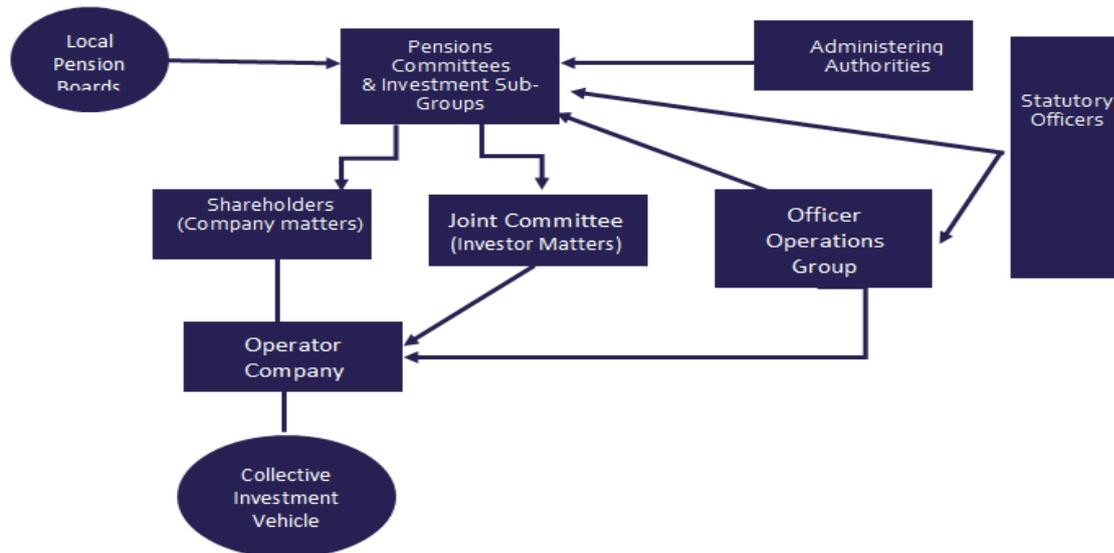
**Investment Pooling**

In order to satisfy the requirements of the “Local Government Pension Scheme: Investment Reform and Guidance” issued by the Department for Communities and Local Government (“DCLG”) in November 2015, the Pension Fund elected to become a shareholder in Border to Coast Pensions Partnership Limited (Border to Coast). Border to Coast is an FCA-regulated Operator and Alternative Investment Fund Manager (“AIFM”).

Border to Coast is a partnership of the administering authorities of the following LGPS Funds:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The governance structure of Border to Coast is set out in the diagram below:



The Fund holds Border to Coast to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast.
- A representative on the Joint Committee who will monitor and oversee the investment operations of Border to Coast.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

The Pension Fund retains the decision making powers regarding asset allocation and delegates the investment management function to Border to Coast.

A significant proportion of the Fund’s investments are already made through Border to Coast, however where it is not practical or cost effective for assets to be transferred into the pool, they will continue to be managed at the Fund level. This is expected to predominantly include legacy unquoted investments such as limited partnerships. Whilst these assets may not to be transferred, once these investments mature the proceeds will be reinvested into Border to Coast sub-funds. At the current time it is estimated that c. 70% of the Fund’s assets will be invested in Border to Coast, subject to it having suitable management arrangements in place.

The Fund will perform an annual review of assets that are held outside of the pool, to ensure that it continues to demonstrate value for money. As required, the Fund will submit reports on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

## **Approach to environmental, social and corporate governance (ESG) factors**

The Fund considers itself to be a responsible investor, taking ESG matters very seriously and monitoring the investment managers' approach to ESG.

### **Responsible Investment Beliefs**

These beliefs form the foundation of discussions, and assist decisions, regarding the structure of the Fund and the strategic asset allocation. In addition, they are used to ensure that new members on the Pensions Committee understand previous investment decisions taken.

#### **Belief 1:**

**Companies with a responsible ESG policy are expected to outperform companies without an ESG policy, over the longer term.**

The Committee believes that companies that have well developed ESG policies will generally provide better long term performance than those companies that have not considered ESG factors in their business.

#### **Belief 2:**

**The Committee considers that company engagement, rather than disinvestment, would be the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment would be a consideration. Disinvestment on a whole sector basis is not within the Committee's beliefs.**

Disinvestment is a blunt tool that is not believed to provide the best outcomes over the medium to long term. The Fund will, through its managers and other organisations, engage with companies to bring change, but will consider company disinvestment if engagement fails.

#### **Belief 3:**

**Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes.**

The Committee believes that climate change risk and the transition to a low carbon economy should be factored into asset allocation decisions and also investment decisions by managers to reduce the long term financial risk, but also to take advantage of the opportunities that may be available.

#### **Belief 4:**

**The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations should therefore carry more weight than non-financial considerations.**

The main objective of the Pension Fund is to ensure that it is able to pay benefits to its members as and when they fall due. Therefore financial considerations will be at the forefront of any investment or asset allocation decisions.

**Belief 5:**

**The Fund's active investment managers should embed the consideration of ESG factors into their investment process and decision making.**

The Committee believes that the consideration of ESG factors when making investment decisions should not be an add-on but should be embedded into the whole investment selection process. Any active managers appointed by the Fund will be expected to evidence this.

**Belief 6:**

**The Fund should collaborate with other investors if it could have a positive impact, and also engage with them and investment managers to better understand ESG risks.**

The Committee believes that the Fund has a stronger voice when working with others, be it Border to Coast Pensions Partnership, Local Authority Pension Fund Forum (LAPFF) or any other organisations. The Fund will work with them and the investment managers to ensure that it understands the ESG risks and how best to address them.

It is considered that the Pensions Committee represents the views of the Fund membership and, in addition, the views of the Local Pension Board are taken into account as part of their review of this document.

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

The Fund has published its Responsible Investment Policy and Voting Guidelines on the shared website at [www.wypf.org.uk](http://www.wypf.org.uk).

Lincolnshire Pension Fund is fully committed to responsible investment (RI) to improve the long term value for shareholders. The Fund believes that well governed companies produce better and more sustainable returns than poorly governed companies. The Fund also believes that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), should influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

As global investors, the Fund expects the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. The Fund is in the process of preparing its statement for the 2020 UK Stewardship code. This will be included within the ISS once it has been completed and approved by the Committee and the Financial Reporting Council.

## **Compliance and monitoring**

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement, and Officers report to the Pensions Committee where any investment managers do not comply.

The Investment Strategy Statement of the Lincolnshire Pension Fund will be reviewed by the Pensions Committee at least every 3 years and more regularly if considered appropriate or amendments are required.