Investment Strategy Statement (June 2023)

Introduction and background

1. This is the Investment Strategy Statement ("ISS") of the Wandsworth Pension Fund ("the Fund"), which is administered by Wandsworth Council, ("the Administering Authority"). Wandsworth Council's Pension Fund is established in accordance with statute to provide death and retirement benefits for all eligible employees, mainly staff from Richmond and Wandsworth Councils and incorporates the former Richmond Pension Fund . The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

2. The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Mercer Limited. The Committee acts on the delegated authority of the Administering Authority.

3. The original ISS, which was approved by the Committee on 7th March 2017, 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.

4. The Committee 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 Funding Strategy Statement (dated April 2023).

The suitability of particular investments and types of investments

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

6. 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 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.

7. 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 risk and the nature of the Fund's liabilities.

8. It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The approach that the Fund has taken to setting an appropriate investment strategy is as follows:

9. The investment management strategy is to appoint expert fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with the investment manager having taken advice from the Fund's appointed advisor on both asset allocation and where appropriate manager selection (this would only apply if the appropriate asset class is not available within the Fund's Pooling arrangements).

10. The approach employs a combination of specialist active managers plus a passive manager in order to give diversification taking into account appetite for (active) risk, management cost factors and empirical evidence relating to the success of particular approaches in different markets.
11. 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).
12. In addition, the Committee 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
    - Ongoing income requirements for the Fund
13. The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation In order to minimise trading costs any rebalancing is limited to the mid-point of the difference between the benchmark allocation and the relevant boundary of the tolerance range.
14. The Director of Finance will monitor these tolerances monthly and is delegated authority to rebalance within these guidelines.
15. Exceptionally, there may be market conditions that dictate against this rebalancing strategy being implemented or the pace at which rebalancing occurs and the Director of Finance is authorised to depart from this strategy if he deems that circumstances indicate a departure.
16. Rebalancing decisions would also take account of any liquidity effects.
17. Any rebalancing activity or departures from the strategy would be reported to the next meeting of the Pensions Committee.
18. The Fund's Investment Beliefs are:
    - Enhanced returns are delivered through long term investing
    - The strength of the Fund's covenant enables the fund to take a long term view for its investment strategy
    - Strategic Asset Allocation and the timing of material changes are the most important drivers of the fund's financial outcomes
    - Equities are expected to generate superior long term returns
    - Alternative asset classes will be considered to enhance returns and diversification
    - It is recognised that environment, social and governance factors, including climate change, can influence long term investment performance and the ability to achieve long term sustainable returns

- Whilst fees and costs need to be controlled, return net of fees will be the key performance indicator for the Fund.
- Good Governance is critical to making informed investment decisions.
- Enhanced returns in a risk managed environment are delivered through combining active and passive management approaches.

Investment of money in a wide variety of investments

Asset classes

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

20. 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.

21. 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".

Table 1: Fund allocation

Asset class	Target allocation %	Min – Max invested %
Global equities	55	45-65
Property	6	4-8
Infrastructure Equity	10	5-15
MAC	10	8-12
Private Debt	8	5-12
Corporate bonds	10	5-15
Cash	1	0.5 - 3
Total	100	n/a

22. The above allocation was agreed at the Joint Pension Committee Meeting on 16th September 2020 (Committee Paper No. 20-276).. The asset allocation needs to meet the requirements of all stakeholders and therefore the combined funding level will be used to determine the asset allocation for the Fund which at the 31 March 2022 Triennial Valuation was 116%. The Fund will seek relevant advice following each triennial valuation to ensure that the allocation meets its funding and cash flow requirements.

23. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Restrictions on investment

24. The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund has agreed not to impose its own restrictions as all other investment restrictions will be negotiated with fund managers or the London CIV, subject to the Fund receiving appropriate investment and/or legal advice. However, should any one active fund (including money invested in sub-funds within the London CIV) hold more that 15% of the Fund's assets this will be reported to the next Pension Committee for authorisation to continue or rebalance to below 15%. No fund manager shall hold (including money invested via the London CIV) more than 25% of the Fund's assets. Percentages will be rounded to the nearest whole number.

Managers

25. 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.

26. Future Manager selection will be the responsibility of the London CIV, and therefore the Committee will need to be satisfied that the benchmarks set by the CIV meet the Fund's requirements. Governance arrangements for the CIV are dealt with in paragraphs 58-60

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

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

28. 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

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

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

31. Systemic risk, including climate change related risks- 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.

32. 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 has taken into account that the Fund is sub-divided

into 3 pots to reflect the Shared Staffing Arrangement (SSA) between Richmond and Wandsworth Councils. The results from the 2019 analysis highlighted these pots were funded at the following levels: Richmond (111%); SSA (102%); and Wandsworth (132%). This analysis will be revisited as part of the 2025 valuation process. 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.

33. 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.

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

Asset risks

35. 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.

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

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

38. Environmental, social and governance ("ESG"), including climate change related investment risks – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.

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

40. The Committee measure and manage asset risks as follows.

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

42. 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. The Committee acknowledges the currency risks differs between asset classes and as such adapts its approach accordingly. As capital preservation is fundamental for credit related assets the Fund hedges 100% of relevant assets however; recognising the long term nature of equity investing and market value volatility the long term view is that equity holdings will not be hedged. However; due to the increased risk of sterling volatility due to Brexit the Committee have agreed for its Equity and Real Asset investments they will

hedge 50% of its currency exposure and/or invest in a sterling share class. Details of the Fund's approach to managing ESG risks is set out later in this document.

43. The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and have a significant proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists. The ability to continue with this approach will be dependent on the arrangements agreed with the London CIV who will be responsible for appointing Fund Managers on an ongoing basis

Other provider risk

44. 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.

45. Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

46. Credit default - The possibility of default of a counterparty in meeting its obligations.

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

Cash flow Risk

48. A shortfall in liquid assets or eligible collateral relative to short term liabilities (e.g. pension payments) could create the risk of selling a significant proportion of assets at an unreasonably low price to fund these payments. The Pension Fund has insufficient income from contributions to meet its current pension liabilities however is cash positive when dividends and interest is included, so that cash reserves are normally sufficient to meet any payments. At each actuarial valuation (every three years) a sensitivity analysis determines whether liquidity and cash flow needs are likely to be met while testing for adverse market effects and potential asset sales to meet pension payments. Additionally the Council will ensure that all future payments can be met and that sufficient assets are held in liquid investments (realisable in three months or less) or in eligible collateral, such as government bonds.

49. 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.

50. A more comprehensive review of risks to which the Fund is exposed and the approach to managing these risks is undertaken by the Wandsworth Local Pension Board whose Minutes are reported to the Pensions Committee. Should any significant concerns be highlighted the Chair of the Board would prepare a report to the Committee.

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

51. The Fund is a participating scheme in the London CIV. The structure and basis on which the London CIV operates is correct as at November 2020.

Assets to be invested in the CIV

52. The Fund's intention is to invest its assets through the London CIV whenever there is a suitable product that meets its requirements. The Fund will transition liquid assets into the London CIV when there are suitable investment strategies that meet the asset allocation and investment strategy available on the London CIV platform. They key criteria for assessment of the CIV solutions will be as follows:

53. That the CIV enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund

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

55. At the time of preparing this statement the Fund has already invested the following assets via the London CIV:

Table 2: Fund allocation to London CIV

Asset class	Manager	% of Fund assets as at 31/03/23	Benchmark and performance objective
Global Equity	Longview	17.3	MSCI World Unhedged (Total Return) + 2%
Global Equity	Baillie Gifford	12.4	MSCI World All Countries Unhedged (Gross Dividend Re-invested) + 2%
Global Equity (Sustainable)	RBC	9.1	MSCI World Index Total Return (Net) in GBP+2%
Multi-asset Credit	CQS	5.3	LIBOR + 4%
Renewable Infrastructure	BlackRock, Stonepeak, Quinbrook, and Foresight	1.8	6% total return

56. At the time of preparing this statement the Fund has elected not to invest the following assets via the London CIV:

Table 3: Fund allocation outside London CIV

Asset class	Manager	% of Fund assets as at 31/3/23	Benchmark and performance objectives	Reason for not investing via the XYZ Pool
Passive / Enhanced Index – Multi Asset	Legal and General,	19.0	FTSE / iBoxx indices (various) [+0.55% Enhanced Index]	Not value for money to transfer/no equivalent mandate on CIV

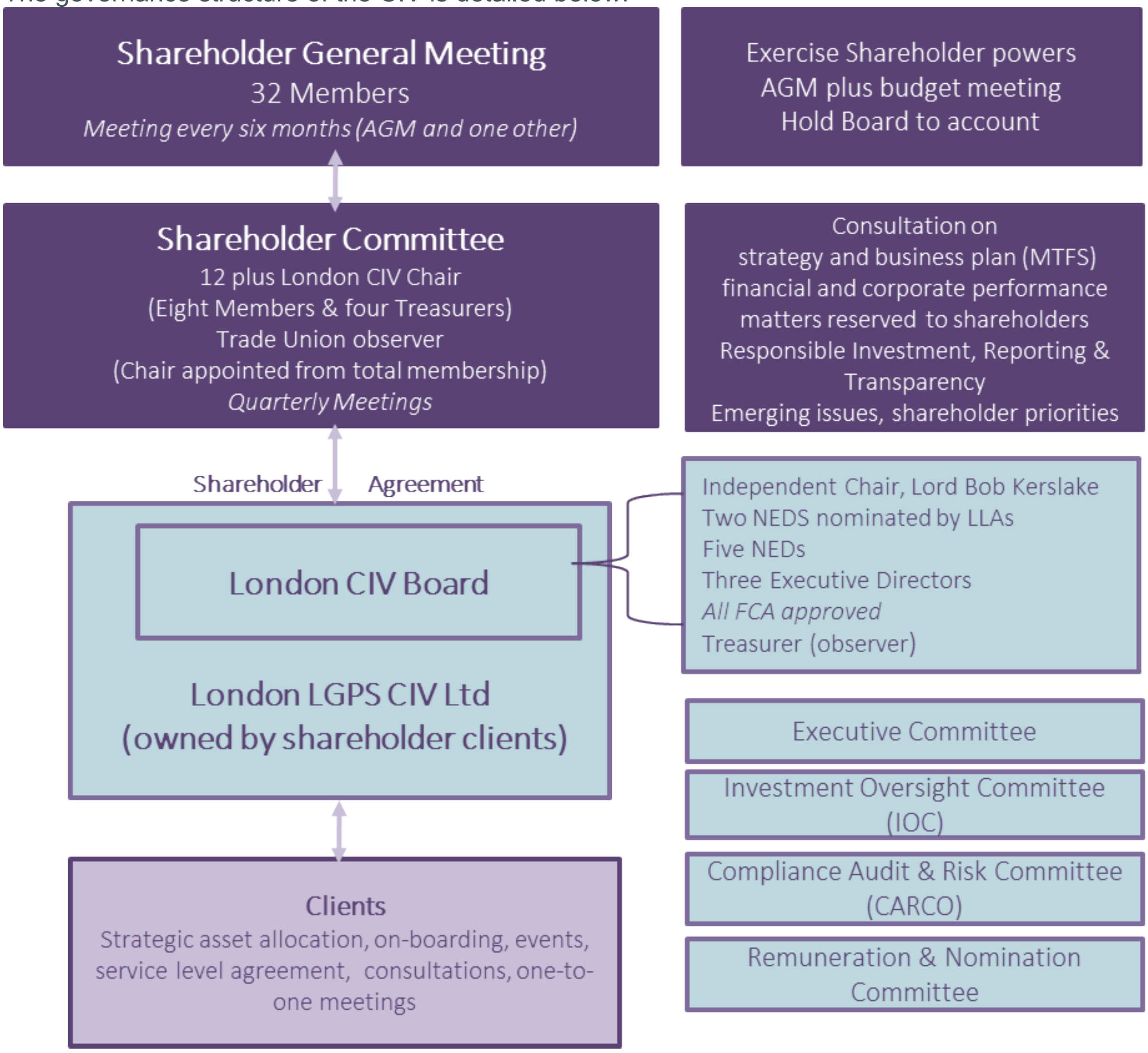
Fixed Income	Allianz, Janus Henderson	7.7	: IBOXX All Stocks Corporate Bonds, FTSE Actuaries Govt Securities Index – Linked > 5 years + 1.5%;	No sterling denominated fixed Income mandate currently on CIV platform
Multi-asset Credit	Oak Hill	5.0	LIBOR + 4%	Diversification/Seed capital for Private Debt
Property	Legal & General, Nuveen, CCLA, and Schroder	5.7	AREF / IPD All Balanced Property Fund Index Weighted Average + 1%	Not value for money to transfer/no equivalent mandate on CIV
Private Debt	Brightwood, Churchill and Permira	7.1	LIBOR + 4%	No Private Debt Fund/Illiquid Mandate
Infrastructure (including Energy Transition)	JP Morgan, Pantheon, Sandbrook, Octopus	5.7	6% total return	Illiquid Mandates /no equivalent mandate on CIV

These are the current weightings as at 31st March 2023 and do not reflect the changes that will need to be implemented to meet the new asset allocation benchmarks set out in Table 1 above.

57. Any assets not currently invested in the Pool will be reviewed annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

Structure and governance of the London CIV

58. The governance structure of the CIV is detailed below:



59. All participants of the CIV are both shareholders and investors in the London CIV company and the governance structure enables both formal and informal scrutiny with the Shareholders' Committee providing scrutiny and oversight of the CIV.

60. The Fund will seek to have representatives on both Member and Officer led Committees within the London CIV and any key updates from those meetings and/or other information provided by the CIV shall be reported to Pension Committee.

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

61. The Council has a paramount fiduciary duty to obtain the best possible financial return on the Fund investments against a suitable degree of risk. It also considers a company's good practice in terms of environmental, social, and governance ("ESG") issues is generally likely to have a favourable effect on the long-term financial performance of the company and improve investment returns to its shareholders.

62. It is recognised that ESG factors, including climate change, can influence long term investment performance and the ability to achieve long term sustainable returns. 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.

63. The investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when considering the acquisition, retention or realisation of investments for the Fund. 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.

64. 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.

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

66. 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. Based on a climate scenario analysis assessing the Fund's investments under three warming scenarios (2°C, 3°C and 4°C), the Fund finds that an alignment with a scenario seeking to decarbonise the global economy and limit global warming is the most advantageous from the investment perspective. The Fund has therefore decided to adopt a policy to progressively decarbonise its investments (as measured by the Weighted Average Carbon Intensity), starting with the listed equity mandates. .

67. In June 2022 the Committee set a 2050 net zero target with an ambition to achieve a 60% reduction in emissions based on its 2019 Equity data. All future investment decisions will need to consider the impact on meeting this objective.

68. The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

69. To date, 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 having had due regard to the Stewardship Code. Any identified breaches of the Stewardship Code would be reported to the Pensions Committee.

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

Voting rights

70. 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 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 ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

71. The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Director of Resources monitors the voting decisions made by all its investment managers on a regular basis.

72. It should be noted that as the Fund's investments will largely be held in the London CIV and those investments 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.

Stewardship

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