Staffordshire Pension Fund
Local Government Pension Scheme

Investment Strategy Statement

April 2023

Investment Strategy Statement

1. Introduction and Background

1.1 This is the Investment Strategy Statement ('ISS') produced by Staffordshire County Council as the administering authority of the Staffordshire Pension Fund ('the Fund'), to comply with the regulatory requirements specified in Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ('the investment regulations'). The ISS is subject to annual review and within six months of any material change in investment policy or other matters as required by law.

1.2 The ISS was approved by the Pensions Committee in March 2023, following consultation with the Fund's Investment Adviser, Hymans Robertson. The Pensions Committee is the main decision-making body and comprises both elected Councillors and non-voting representatives from Trade Unions and from other employing bodies in the Fund. A full explanation of the governance arrangements setting out the respective roles of the Pensions Committee, Pensions Panel, and the Local Pensions Board can be found in the separate document entitled 'Governance Policy Statement' published on the Pension Fund website at the following link.

https://www.staffspf.org.uk/Governance/Policies/Governance-policy-statement/Governance-policy-statement

1.3 In preparing the ISS, the Pensions Committee has consulted with its Investment Advisers and the Fund Actuary, as there are close links between this Statement and the separate Funding Strategy Statement ('FSS') which can also be found on the Pension Fund website at the following link.

www.staffspf.org.uk/Finance-and-Investments/Funding-Strategy-Statement/Funding-Strategy-Statement

2. The Fund's Objectives

2.1 The Fund has several funding strategy objectives which are set out in the FSS. These are to;

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants.

- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency.

- where appropriate, ensure stable employer contribution rates.

- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy.

- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

2.2 The FSS sets out the main aims of the Fund and sets employers' contribution rates to achieve those aims based on a Strategic Asset Allocation ('SAA') that is predominantly invested in return-seeking assets. The FSS models the risks of this investment strategy and the link between assets and liabilities. It also sets out the likelihood of achieving the funding objective in the long term. The FSS has an explicit stabilisation mechanism to limit the annual increase in contribution rates for local authorities and other employing bodies with strong covenants.

2.3 The investment objective of the Fund is:

- To achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding strategy objectives on an ongoing basis.

3. Investment Strategy and Beliefs

3.1 The Fund has built up assets over many years and continues to receive contribution and investment income. Any money which is not needed immediately to make payments from the Fund must be invested in a suitable manner; the way in which this is done is referred to as the investment strategy. The Fund ensures it has parameters around its investment strategy by setting a SAA, which at a primary level indicates how much the Fund will allocate to each asset class (i.e., equities, fixed income, property, infrastructure, and cash). This primary level is often then sub-divided further by type of investment and manager allocations.

3.2 The Fund shares a set of common investment beliefs which it thinks about when setting its investment strategy. These were updated in 2019 to incorporate the Fund's beliefs about Responsible Investment (RI) and are listed below:

- A long-term approach to investment will deliver better returns and the long-term nature of LGPS liabilities allows for a long-term investment horizon.

- Liabilities influence the asset structure. Funding levels, contribution and investment strategies are linked, and all should be considered together when making investment decisions.

- Asset allocation is one of the most important factors in driving long term investment returns, but strategy implementation is becoming increasingly more important.

- Diversification of investments across and within asset classes can improve the risk / return profile, but must be resilient through market crises, and the benefits are subject to diminishing returns.

- Inefficient markets mean there is a place for active management, providing there is a realistic expectation of out-performance and has the potential to contribute to non-financial goals.

- Risk premiums exist for certain investments, which together with secure and growing income streams can help to recover funding deficits and underpin the ability to meet the Fund's future pension liabilities.

- The fees of investment managers should be aligned with the Fund's long-term interests. Value for money is more important than the minimisation of cost.

- Responsible investment, which covers a wide range of environmental, social and governance issues, can enhance long-term investment performance across all asset classes and should be integrated into all investment processes.

- A strategy of engagement, rather than exclusion, is more effective and supportive of responsible investment. The opportunity to influence through stewardship is waived with a divestment approach.

- Financial markets could be materially affected by climate change. Responsible investors should proactively manage this risk through stewardship activities in partnership with like-minded investors where feasible.

- Asset managers and investee companies with robust governance structures will be better positioned to handle future events. Decision making and performance are improved when there are diverse individuals involved.

3.3 The Pension Fund's SAA is formulated in consultation with the Fund's Investment Advisers, Hymans Robertson, with all the Fund's objectives in mind. A full SAA review was carried out alongside the work for the Actuarial Valuation as at 31 March 2022. It was determined with reference to:

- The likelihood that it will deliver a return that, in conjunction with the contribution strategy, will achieve the Fund's long-term funding target; and

- The likelihood that any shortfall from the funding target, in the event of adverse investment outcomes, will be within acceptable levels.

3.4 In order to do this, Hymans Robertson use Asset Liability Modelling (ALM) to assess a range of possible outcomes on numerous potential investment strategies. ALM uses 5,000 economic scenarios with various combinations of relevant data (e.g., asset class returns, inflation rates, interest rates, salary increases etc) to project forward the funding level for each investment strategy. From the distribution of outcomes, the probability of being fully funded at a particular point in time (20 years has been used for the Fund) and worst-case positions under adverse scenarios can be estimated.

3.5 ALM looks for a combination of investment and contribution rate strategies that gives the likelihood of achieving the desired funding level (i.e., 100%) with acceptable down-side risk. For the most recent SAA review, a total of 16 investment strategies were modelled prior to the most suitable being approved by the Pensions Committee.

3.6 The most recent Actuarial Valuation of the Fund at 31 March 2022, indicated a funding level of 120% (an increase from 99% at 31 March 2019). This means that at 31 March 2022, the Fund was more than fully funded. However, it should be acknowledged that this is a single point in time and that the long-term aim is for the Fund to remain fully funded for the next 20 years and beyond. In order to achieve this, the Fund still needs to ensure that the value of its assets, relative to its liabilities, continues to grow. The most recent SAA review aims to achieve this and reflected the current funding position by recommending a switch from return-seeking assets such as equities to more income producing assets, such as property, private debt, infrastructure, and multi-asset credit.

3.7 This switch to more income producing assets will help the Fund as it matures, and more is paid out in pensions than is received in contributions from active members. The SAA review also looked at the Fund's liquidity and concluded that the income generated by the Fund's assets (e.g., interest and rental income) should be more than enough to cover any shortfall in contributions for the foreseeable future.

3.8 The SAA is reviewed and approved by the Pensions Committee every three years, as part the actuarial valuation process and to take account of developments in the investment environment. It is monitored more frequently at quarterly meetings of the Pensions Panel.

3.9 The arrangements for the Fund's investments changed with the advent of LGPS asset pooling and LGPS Central Limited on 1 April 2018. Staffordshire is one of 8 Partner Funds (owners and clients) of LGPS Central Ltd and over recent years and going forwards, an increasing amount of the Fund's investments will be invested through LGPS Central Limited. However, the decision making around the Fund's SAA, which is recognised to be the primary driver of investment returns, still lies with the Pensions Committee.

4. The requirement to invest money across a wide range of investments and an assessment of the suitability of particular investments and investment types.

4.1 The Pensions Committee receives advice on investments from its appointed Investment Advisers. The issues that the Pensions Committee takes into account when considering different investments (or asset classes) include;

- Legality – is it excluded by any regulation?
- The nature and type of return (e.g., is the asset 'real'?)
- The expected level of return
- The expected variability of return (volatility)
- The relationship of returns between asset classes

- The long-term track record of the asset class
- Liquidity
- Credit Risk (i.e., risk of loss)
- Leverage
- Currency risk
- Complexity
- Use of active management where it can add value
- Responsible Investment.

4.2 Following the SAA review of the Fund, which took place alongside the Actuarial Valuation at 31 March 2022, the Pensions Committee agreed that the following asset classes were appropriate for the Fund to invest in.

Return-seeking assets	
Equity	Global Equity
	Private Equity
	*LGPS Central Limited
Property	
Infrastructure	
Fixed Income	Private Debt
	Multi-Asset Credit
Defensive assets	
Fixed Income	Fixed-Interest Gilts
	Index-Linked Gilts
	Investment-Grade Corporate Bonds
	*LGPS Central Limited
Cash	

*The Fund invests in this asset class via investing in the regulatory capital of LGPS Central Limited.

4.3 The Fund’s SAA is set to ensure that the Fund invests in a wide range of asset classes. This diversification of assets reduces risk and aims to help meet the Fund’s funding objectives. Whilst the SAA sets the framework for the Fund’s portfolio of assets over the long-term, many more detailed decisions have to be taken to build the portfolio of assets; these include considerations such as the type of investment management (e.g., passive vs active management,), the choice of investment vehicle (e.g. LGPS Central Limited or an alternative where no investment vehicle is provided or suitable) and the geographic spread (e.g., UK vs global investment).

4.4 These ‘structural’ aspects are the subject of ongoing monitoring by Officers and Advisers and a ‘Strategic Asset Allocation Review’ report is presented quarterly to the Pensions Panel for its consideration. From time to time, when markets dislocate, ‘tactical’ moves between asset classes may be deemed appropriate. However, the Pensions Panel will only agree to make any such switches, following clear advice and recommendations from their Advisers.

4.5 Furthermore, to ensure that ‘tactical’ switches are not made unnecessarily, the Pensions Panel monitors the actual SAA of the Fund, subject to tolerances, versus the target SAA of the Fund. The current and long-term target SAA target, with permitted tolerance ranges, are provided in Appendix A.

4.6 The Fund categorises assets between return-seeking assets and defensive assets, with the defensive assets being those which aim to remove some of the volatility and risk in the investment strategy (e.g., if equity markets fall in value, other asset classes may rise in value). The balance between return-seeking assets and defensive assets must be such that volatility can be managed, but that the investment strategy is still capable of returning the level of growth required in the long term, in line with the assumptions made by the Actuary in the actuarial valuation.

Expected Return on Investments

4.7 In carrying out the 2022 Actuarial Valuation of the Fund, the Fund's Actuary agreed several financial assumptions with the Pensions Committee. One of these related to the likely level of investment returns the Fund could expect to achieve over the long term.

4.8 Considering the output from the ALM exercise and the Fund's current SAA, the Actuary determined that the likely total (net) investment return for the Fund over the next 20 years was estimated to be 4.4%. This rate was then used for the purposes of calculating a funding level as part of the 2022 Actuarial Valuation (the discount rate).

4.9 The discount rate of 4.4% is a calculation at a single point in time and a number that that the Actuary estimates, best represents the likelihood of the Fund achieving a 100% funding level in 20 years' time. The following table details the assumptions made about the expected long-term returns (net of fees) for each of the main asset classes, which were used in the ALM exercise and the 2022 Actuarial Valuation. The table also provides the annual expected volatility of those returns as at 31 March 2022.

		Expected net Rate of Return (p.a.) (20 years)	**Volatility of Return in Year 1 (p.a.)**
Return-seeking assets		**31 March 2022**	**31 March 2022**
Equity	Global	6.1%	20.0%
	Private Equity	10.0%	31.0%
Property		5.0%	15.0%
Infrastructure		6.5%	15.0%
Fixed-Income	Private Debt	4.3%	9.0%
	Multi-Asset Credit	4.4%	7.0%
Defensive assets			
Fixed-Income	Fixed-Interest Gilts	1.5%	7.0%
	Index-linked Gilts	0.1%	7.0%
	Investment-Grade Corporate Bonds	2.1%	8.0%
Cash		2.4%	0%

4.10 For investment return assumptions for time periods after the end of the funding horizon (i.e., more than 20 years); the rate set by the actuary is set at a margin above the risk-free rate (i.e., a UK Government Fixed-Interest Gilt). This outperformance assumption represents the excess return the Fund might get for investing in riskier assets (i.e., equities) over the long-term. The level of the margin set depends on the funding objective, but when looking at employers who are expected to be members of the Fund on an ongoing basis, the margin is +1.6%. More details on the assumptions used in the 2022 Actuarial Valuation can be found in the Fund's Funding Strategy Statement available at the following link.

www.staffspf.org.uk/Finance-and-Investments/Funding-Strategy-Statement/Funding-Strategy-Statement

4.11 Any asset class / investment is assessed on its individual merits and on the potential, it offers to improve the overall balance of risk and return for the Fund as a whole. The numbers provided in the previous table are indicative of the characteristics sought. The expected return from defensive assets (e.g., fixed-interest gilts) is not required to match those of return seeking assets (e.g., equities), if they offer a more stable pattern of returns and a degree of diversification.

4.12 The portfolios making up the Fund's assets are managed on both an active and a passive basis with the active portfolios expected to outperform their respective benchmarks over the long term. As a result, the investment return achieved by the Fund is expected to exceed the expected return on UK Government Fixed–Interest Gilts (a proxy for the expected growth in liabilities). Details of the investment managers/vehicles, their respective benchmarks and performance targets are included in Appendix B for information.

4.13 The Fund's SAA is monitored quarterly by the Pensions Panel, who receive a report on performance. The performance report covers the total Fund performance, in terms of returns received compared to the benchmark, the performance of individual asset classes and the performance of individual investment managers and LGPS Central Limited pooled products, versus their benchmarks. The Pensions Panel use this information to help assess the ongoing suitability of the Fund's investment strategy and SAA.

Realisation of investments

4.14 The Fund may need to realise cash at short notice to pay pensions benefits or to fund investments that have been committed to. The majority of the Fund's assets held by Investment Managers or in pooled vehicles (e.g., equities and fixed-income assets), are quoted on major markets and may be realised quickly if required. Property, Private Equity, Private Debt and Infrastructure investments, which are relatively illiquid, make up a smaller proportion of the Fund's assets.

Stock Lending

4.15 Since May 1999, the Pension Fund has been part of its Custodian's stock lending arrangement, whereby securities held by the Pension Fund are loaned to a third party in return for a fee.

4.16 There are risks in stock lending, but the Pensions Panel considers that these are well managed by the custodian through its lending program with appropriate collateral arrangements in place, reflecting current market practice. Overall, the Pensions Panel considers that the income from stock lending is beneficial to the Fund and that the risks are understood and well managed.

4.17 The manager(s) of pooled funds (including LGPS Central Limited) may undertake stock lending on behalf of unit holders. Where a pooled fund engages in stock lending, the extent to which it does so should be disclosed by the manager. Although the Pensions Panel has no direct control over stock lending in pooled funds, it is comfortable with the nature of the activity and that the return is appropriate to the risk being taken.

Pension Fund Cash

4.18 Cash management in the Pension Fund comprises two elements;

- cash held centrally in Pension Fund cash accounts (i.e., bank accounts and money market funds); and
- cash held in the Custodian's bank account.

4.19 The Pension Fund has a 1.0% strategic allocation to cash which is primarily used for fulfilling the daily liquidity needs of the Fund. The cash is managed by Staffordshire County Council's Treasury and Pension Fund Team in accordance with the Pension Fund's Annual Investment Strategy for cash, approved by the Pensions Panel before 31 March each year.

4.20 Each investment manager in the Fund with a segregated mandate will have a cash account with the Pension Fund's custodian for GBP Sterling and foreign currency. The cash in these accounts is held primarily for the managers day to day liquidity needs but can fluctuate (e.g., timing issues of trade settlement, dividend income etc) and a maximum cash limit is agreed with each manager as part of their Investment Management Agreement.

4.21 All cash balances held with the custodian are swept on an overnight basis into highly credit rated (AAA) money market funds, attracting an appropriate rate of interest.

5. The Fund's attitude to risk, including the measurement and management of risk.

5.1 The main risk to the Fund is not meeting the strategic objectives set out in section 2. This risk is managed through the Funding Strategy, which models the likelihood of a range of possible outcomes occurring through ALM (see paragraph 3.4). The primary reason for the high variability (risk) in outcomes from ALM is due to the long-term nature of the Fund's investment horizon (e.g., 20 years) and the high proportion of the Fund invested in return seeking assets (e.g., equities). The Fund relies upon the strong covenant of the major employing bodies for it to take a long-term investment perspective, and the expected returns on the Fund's return-seeking assets are considered to be commensurate with the risk being taken, which helps keep employer contributions lower than they otherwise would be.

5.2 Risks are inherently reported to the Pensions Committee and Pensions Panel as part of routine reporting. Also, there is a separate Risk Register, which has been developed to categorise risk across 4 main areas of focus: **Funding, Administration, Governance and Investment**. The Fund's Risk Register has a set of high-level objectives, which cover all key aspects of the Fund under each area. The greatest risks are therefore those associated with not meeting the high-level objectives. The Risk Register details the risks associated with not achieving the Fund's objectives as a series of sub risks against the high-level objectives. This ensures a comprehensive coverage of all areas of the Fund. Some key risks from each of the areas, and the way in which they are mitigated, are highlighted in the following paragraphs.

Funding

5.3 **Inflation** - future payments the Fund must make to pensioners are linked to inflation. Therefore, increases in the rate of inflation will increase the value of payments to pensioners. The Fund invests in assets, such as Index-Linked Gilts, which are linked to inflation. This reduces risk as it matches the return on these assets to actual increases in inflation.

5.4 **Longevity** - future life expectancy is an area which is difficult to forecast accurately but, as people are living longer, the cost to the Fund increases. The Fund has made assumptions on longevity with allowances for future increases. The Fund Actuary also has access to information on the experiences of other local authority pension funds. A substantial portion of this risk has been transferred to employees under the LGPS 2014 scheme regulations, which links the scheme retirement age to the state pension age.

5.5 **Changes in the maturity profile of the Fund** - the Fund will mature as the ratio of pensioners and deferred pensioners to active employees increases. This issue has grown over recent years because of structural changes affecting employers in the Fund and to manage this risk, the Fund has looked to invest more in income producing investments to help pay for the increasing number of pensioners.

Administration

5.6 **Maintaining an appropriate level of staffing and resources** – risks are mitigated through monitoring workloads, or backlogs and benchmarking staff numbers. Management also has regular conversations with staff about workloads and how processes can be made more efficient, as well as monitoring customer feedback results and complaints.

5.7 **Maintaining complete and accurate records** – risks are mitigated by using internal contribution control and financial systems. Other controls include actuarial data checks, scheme of delegation, record keeping checks and actuarial calculations. The increased use of technology and direct access portals for members and employers is also helping to reduce this risk.

Governance

5.8 **Structure** - the Fund must demonstrate the key principles of accountability and transparency through clear responsibilities and reporting and an appropriate governance structure. To manage this, the Fund's objectives are defined, reviewed annually, and approved by the Pensions Committee as part of a comprehensive performance management framework. This includes key performance indicators (KPI's) and a frequent review of the Risk Register. Reports on governance arrangements are presented at the Pensions Committee and the Local Pensions Board regularly.

5.9 **Training** - elected Members and Officers need to have the required skills and qualifications to perform their function effectively and be supported by an ongoing programme of training. This is promoted by the adoption of the CIPFA Knowledge and Skills Framework and the use of a Training Policy and

Training Log. Assurance is given by reviewing the Training Log, the Local Pensions Board, the qualifications and the experience of senior officers, and performance meetings with staff.

5.10 **Advisers** – the Fund needs to have proper arrangements to receive appropriate financial, investment and actuarial advice to make the best possible decisions. This risk is managed by procuring the services of several advisers who attend and report to the Pensions Committee, Pensions Panel and Local Pensions Board, advising them on key decisions.

Investments

5.11 **Investment in equities** – a significant proportion of the Fund is invested in equities, although this is reducing as an outcome of the latest SAA review. Equities are expected to provide better returns than fixed interest over the long term. The risk with this strategy is that equity values fall significantly in the short-term and they fail to outperform fixed-interest assets in the long term. This risk is managed through reliance on the funding strategy which monitors the positive cash flows of the Fund and the long-term covenant of the main employing bodies. This then allows the Fund to take a long-term investment perspective and maintain a relatively high exposure to equities which, over time are expected to deliver better financial returns.

5.12 **Interest rates** - Changes in interest rates will affect the level of the Fund's liabilities and the value of the Fund's investment in fixed income. Little can be done in relation to the change in liabilities; this is a fundamental part of the Fund. To mitigate the risk of capital loss on fixed income assets from interest rate changes, the Fund's SAA allows scope to adjust the exposure to fixed income, should it be necessary.

5.13 **Pension Fund investment managers underperform their target benchmarks** – The majority of the Fund is invested through external investment managers; this risk is partially managed by keeping a substantial share of the Fund invested passively and by ensuring that the active managers have complementary styles. Each manager has an investment management agreement in place which sets out the relevant investment benchmark, investment performance target, asset allocation ranges and any investment restrictions. This constrains the investment managers from deviating significantly from the intended approach, while permitting sufficient flexibility to allow the manager to reach their investment performance target. All this is allied to regular monitoring. Where investments are made through LGPS Central Limited they are also held with external managers. These managers are not directly employed by the Fund therefore the Fund does not have the same control over monitoring their performance. However, the Fund works closely with LGPS Central Limited in monitoring investment manager performance.

5.14 In terms of investment risks, the Pensions Committee receives an annual report from the Fund's independent performance measurer to show both performance and risk, where risk is measured as the variability of returns, both against liabilities and against SAA benchmarks. The Pensions Panel receives reports which monitor such risks quarterly.

5.15 Most of the Fund is invested in liquid investments. Risks are also managed through diversification. For example;

- across asset classes e.g., equities, fixed-income, property, infrastructure and cash;
- across managers, investment styles and geographical areas e.g., investing globally; and
- through ensuring managers maintain a diversified portfolio of investments within their mandate.

5.16 Foreign currency risk is predominantly not hedged by the Fund. The long-term open nature of the Fund means that it can accept volatility from foreign currency movements, and the impact this has on market valuations in the short term. Foreign currency hedging can also be expensive and complex to manage. The Fund has documented its views on currency hedging, asset class by asset class, in a separate Currency Hedging Policy, alongside the ISS at the following link.

www.staffspf.org.uk/Finance-and-Investments/Statement-of-Investment-Principles/Investment-Strategy-Statement

5.17 The risks associated with asset pooling and the creation of LGPS Central Limited, are addressed in the Fund's Risk Register. As a company regulated by the Financial Conduct Authority (FCA), LGPS Central Limited is required to have a professional risk and compliance function which reports directly to the Company's Audit, Risk and Compliance Committee. LGPS Central Limited also provides its Partner Funds with an AAF Internal Controls Report annually.

6. The authority's approach to investment pooling

6.1 Staffordshire County Council, as the administering authority of the Staffordshire Pension Fund, is one of 8 shareholders in LGPS Central Limited (the Company); the other 7 shareholders being the Local Authority Pension Schemes managed by Cheshire West and Chester Council, Derbyshire County Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire Council, Wolverhampton City Council and Worcestershire County Council.

6.2 The 8 Partner Funds have a regional identity but welcome wider collaboration with other LGPS pools. Whilst, one fund, one vote, is an overriding principle of the pooling arrangement, LGPS Central Limited recognises that each fund have different funding levels and deficit recovery profiles and will aim to meet each Fund's needs.

6.3 The 8 Partner Funds of LGPS Central Limited outlined their key characteristics in forming the company, whereby:

- Assets will be managed by both internal and external investment managers with the split between internal and external management varying over time, as the internal investment resource and resilience is developed;

- Knowledge and expertise will be shared and Partner Funds will be open to challenge and change;
- Partner Funds will listen and be constructive;
- Strong governance, based on openness and transparency, between the Partner Funds and the company will be paramount;
- Costs will be actively managed, be transparent and will be shared fairly between Partner Funds;
- Responsible investment will be an integral part of the investment process.

6.4 LGPS Central Limited was approved by the FCA as an Alternative Investment Fund Manager (AIFM) in December 2017. There is a robust governance structure in place which will provide the 8 Partner Funds and their stakeholders with assurance around the management of their investments and the investment process.

6.5 A Shareholders Forum, comprising one elected Member from each of the 8 Partner Funds acts as the supervisory body of LGPS Central Limited and fulfils the shareholders' role in ensuring that the company is managed efficiently and effectively. A Joint Committee, set up in accordance with the provisions of the Local Government Act 1972, is the forum for dealing with common investor issues and the collective monitoring of the performance of LGPS Central Limited against its objectives. To support the Joint Committee and the Shareholders' Forum, there is also a Practitioners Advisory Forum, consisting of Officers from each of the 8 Partner Funds. This Forum (and its sub-groups) provides day to day oversight of the company and monitors its investment performance and investment costs. The Forum also acts as the customer, monitoring levels of customer service and the delivery of wider investor services such as responsible investment and voting.

6.6 With the exception of a working cash balance, to ensure liabilities can be paid as they fall due, a significant and increasing proportion of the Fund's assets, will be invested through LGPS Central Limited. The movement of assets into LGPS Central Limited will continue to take several years to achieve but the Fund has made progress, with several key asset transitions taking place into the LGPS Central Authorised Contractual Scheme (ACS) since the first transition in February 2019. More recently, LGPS Central Limited along with the Fund and other Partner Funds have been working on private market vehicles (i.e., private debt, infrastructure), which have been successful in gaining significant commitments from Partner Funds.

7. The Fund's policy on social, environmental and corporate governance considerations.

7.1 Responsible Investment (RI) is the belief that, over the long term, financial performance can be enhanced through the integration of environmental, social and corporate governance (ESG) considerations into the investment management process and active ownership practices.

7.2 The Pensions Committee and Pensions Panel seeks to ensure that, as far as possible, RI is incorporated, together with financial factors, into the investment process across all relevant asset classes. Non-financial factors are considered as part of investments to the extent that they are not detrimental to the investment returns. Social impact may be considered, but financial return is the primary concern.

7.3 As outlined in section 3, the Fund updated its investment beliefs in 2019 to specifically incorporate RI beliefs, underlining the importance of RI to the Fund.

7.4 As shown in paragraph 3.2, the Fund states that it believes RI can enhance long-term investment performance and supports a strategy of engagement rather than exclusion with companies it is invested in.

7.5 The Fund endorses the United Nations Principles of Responsible Investing (UNPRI) and seeks to encourage its investment managers (where applicable), to sign up to them in order to fully incorporate RI issues into their investment process.

The 6 principles are;

- we will incorporate Environmental Social and Governance issues into investment analysis and decision-making processes;
- we will be active owners and incorporate Environmental Social and Governance issues into our ownership policies and practices;
- we will seek appropriate disclosure on Environmental Social and Governance issues by the entities in which we invest;
- we will promote acceptance and implementation of the Principles within the investment industry;
- we will work together to enhance our effectiveness in implementing the Principles; and
- we will each report on our activities and progress towards implementing the Principles.

As at March 2023, all the Fund's active equity managers (including those appointed by LGPS Central Limited) were signed up to the UNPRI.

7.6 The Fund has been a member of the Local Authority Pension Fund Forum (LAPFF) since 1 April 2013. LAPFF is a voluntary association representing the majority of LGPS Funds and LGPS Pools, who collectively have over £350bn of assets under management. Formed in 1990 LAPFF exists to promote the investment interests of LGPS investors, and to maximise their influence as shareholders while promoting the highest standards of corporate governance and corporate responsibility at the companies in which they invest. LGPS Central Limited is also a member of LAPFF, alongside all its 8 Partner Funds.

7.7 The Fund has delegated voting and day to day engagement with investee companies to its investment managers. With LGPS asset pooling, the responsibility for the selection of investment managers has been transferred to LGPS Central Limited, and agreements between LGPS Central Limited and investment managers set out how RI factors are taken into account. LGPS Central Limited has its own Responsible Investment & Engagement Framework, which all 8 Partner Funds were involved in creating and is available on their website at www.lgpscentral.co.uk/responsible-investment/.

7.8 More details of the Fund's individual investment managers' responsible investment policies, as well as the UK Stewardship Code and UNPRI are available at the Staffordshire Pension Fund website at the following link.

www.staffspf.org.uk/Finance-and-Investments/Corporate-Governance-and-Responsible-Investment/Responsible-Investment-and-Engagement

Climate Change

7.9 In February 2022, the Pensions Committee approved the Fund's first Climate Change Strategy which sets out the Fund's approach to managing the risks and opportunities presented by climate change. The Climate Change Strategy expands on the Fund's RI beliefs, (as detailed in section 3) by including specific climate change beliefs.

7.10 The overarching aim of the Fund's Climate Change Strategy is to achieve a portfolio of assets with net zero carbon emissions by 2050. To guide and monitor the Fund's decarbonisation roadmap, a series of 2030 targets have been included in the Climate Change Strategy against a March 2020 baseline, with progress reported annually.

7.11 To align with best practice on the communication of how climate-related risks are managed, the Fund also publishes an annual Taskforce on Climate-Related Financial Disclosures (TCFD) report. The TCFD recommendations are based on the financial materiality of climate change across four areas of disclosures (Governance, Strategy, Risk Management and Metrics and Targets). The Fund's TCFD report and Climate Change Strategy are available on the Fund's website at the following link.

www.staffspf.org.uk/Finance-and-Investments/Corporate-Governance-and-Responsible-Investment/Responsible-Investment-and-Engagement

7.12 Based on the output of annual climate risk work undertaken by LGPS Central, and in line with the Fund's Climate Change Strategy objectives, the Fund also produces an annual Climate Stewardship Plan. The Climate Stewardship Plan aims to focus the Fund's engagement on the investments in companies which have the most impact on the Fund's climate risk.

7.13 The Fund's Climate Stewardship Plan is a live working document which is updated as engagement with companies and investment managers occurs. The Climate Stewardship Plan is presented to the Pensions Committee annually and updates are provided quarterly to the Pensions Panel, as part of a Responsible Investment and Engagement Report.

8. The Fund's policy with regard to stewardship of assets, including the exercise of voting rights.

8.1 The Fund believes that voting is an integral part of Responsible Investment and delegates much of the stewardship of assets and the exercise of voting rights to its investment managers and LGPS Central Limited. Details of resolutions investment managers have voted on and any engagement they have had with companies, is noted in the quarterly reports the investment managers and LGPS Central produce for the Fund.

8.2 The Pensions Panel receives regular updates from investment managers on details of votes cast on corporate resolutions as part of a quarterly RI report, where any points of interest are also highlighted. The Fund also publishes a report on the voting activities carried out by Managers on its behalf, as part of its annual report. This can be found on the Pension Fund website at the following link.

www.staffspf.org.uk/Finance-and-Investments/Annual-Reports-and-Accounts/Reports-and-Accounts.aspx

8.3 Where assets are managed by LGPS Central Limited, the exercising of voting rights is undertaken in accordance with their Voting Principles Strategy. Voting is a core component of LGPS Central Limited's approach to investment stewardship, which is within their wider Responsible Investment and Engagement Framework. Voting decisions are executed by third party provider(s), who also offer analysis and advice. All LGPS Central Limited's RI documents can be found on their website at www.lgpscentral.co.uk/responsible-investment/.

8.4 Where LGPS Central Limited invests in externally managed pooled funds, the suitability of the manager's voting policy is assessed during due diligence, and ongoing disclosure is required. The Company may also seek to co-file shareholder resolutions which it believes are beneficial to clients' long-term interests and they have a procedure to recall lent stock, in order to vote on significant issues.

8.5 In 2020, the Financial Reporting Council launched an updated UK Stewardship Code. The Code took effect from 1 January 2020 and aims to improve stewardship practices by setting a substantially higher standard than previously. Under the 2016 Regulations, the Fund was accepted as a Tier 1 signatory and in 2023, the Fund is planning to submit a statement that meets the FRC's new reporting expectations, to become a signatory to the most recent UK Stewardship Code

8.6 LGPS Central Limited is a current Tier 1 signatory of the Financial Reporting Council's UK Stewardship Code.

If you have any comments on this Investment Strategy Statement or require any more information on the subjects contained within it, please contact:

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Appendix A – Strategic Asset Allocation – 1 April 2023

		Current Benchmark Target %	Long-Term Benchmark Target %	Permitted Tolerance
Return-seeking assets	Global Equities	61.0	44.0	
	Private Equity	5.0	5.0	
	Total Equity	66.0	49.0	+/- 3%
	Property	10.0	12.5	+/- 3%
	Infrastructure	5.0	10.0	+/- 3%
	Private Debt	5.0	7.5	
	Multi-Asset Credit	0.0	5.0	
Defensive assets	Fixed-Interest Gilts	0.0	5.0	
	Index-linked Gilts	6.5	5.0	
	Investment-Grade Corporate Bonds	6.5	5.0	
	Total Fixed Income	18.0	27.5	+/- 3%
	Cash	1.0	1.0	3% maximum
	Total	**100.0**	**100.0**	

Notes:

The return seeking portfolio consists of total equity, property, infrastructure, private debt and multi-asset credit. This equates to 86.0% under the current benchmark and 84.0% under the long-term benchmark.

The defensive portfolio consists of total fixed-income (excluding private debt and multi-asset credit) and cash. This equates to 14% under the current benchmark and 16.0% under the long-term benchmark.

Appendix B - Investment Managers Benchmark Indices and Investment Targets

Active Portfolios

Investment manager/fund	Asset class	Benchmark	Outperformance target
JP Morgan Asset Management	Global Equities	MSCI All Countries World Index Net	2.0% above benchmark p.a. over rolling 3-year periods
Longview Partners	Global Equities	MSCI All Countries World Index Net	2.0% above benchmark p.a. over rolling 3-year periods
LGPS Central Limited (Global Equity Active Multi Manager Fund)	Global Equities	FTSE All World Index (Sterling)	1.5% above benchmark (net of costs) over rolling 5-year periods
Impax Asset Management Limited	Global Sustainable Equities	MSCI All Countries World Index	1.5% above benchmark (net of fees) over rolling 3-year periods
LGPS Central Limited (Global Sustainable Equity Active Targeted Fund)	Global Sustainable Equities	FTSE All World Total Return Index (Sterling)	2%-3% p.a. above benchmark (net of fees) over a rolling three-year period
LGPS Central Limited (Global Multi Factor Fund)	Global Equities – Factor Based	SciBeta Global High Factor Intensity Diversified Multi Beta Strategy Index (6 Factor, 4 Strategy, Equally Weighted	Match benchmark
LGPS Central Limited (Global Active Investment Grade Corporate Bond Multi Manager Fund)	UK/Global Corporate Bonds	50% ICE BofAML Sterling Non-Gilt Index (ex EM)/50% ICE BofAML Global Corporate Index (ex GBP and EM), hedged to GBP	Outperform the benchmark (total return, in sterling) by 0.8% per annum (net of costs) over rolling 3-year periods

Colliers CRE	Property	MSCI UK Monthly Property Index	To outperform the benchmark
Various	Infrastructure	CPI+ 4.5%	Match benchmark
Various	Private Debt	SONIA 3 Month	5.0% above benchmark
Various	Private Equity	MSCI World Index + 2.0% (lagged by one quarter)	Match benchmark
Various	Cash	SONIA	Match benchmark

Indexed (Passive) Portfolios

Legal & General Investment Management	Global Equities	Solactive L&G Low Carbon Transition Global Index	Match benchmark
Legal & General Investment Management	Global Equities	FTSE All World Index	Match benchmark
Legal & General Investment Management	Index-linked Bonds	FTSE-A Over 5 years Index-Linked Gilts Index	Match benchmark