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London Pensions Fund Authority
Investment Strategy Statement

April 2025

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London Pensions Fund Authority Investment Strategy Statement

Introduction

The London Pensions Fund Authority (LPFA) Board (the Board) has prepared this Investment Strategy Statement (ISS) in respect of the LPFA Pension Fund (the Fund). The ISS has been prepared in accordance with the Government's guidance on preparing and maintaining an investment strategy statement and after taking appropriate advice.

As set out in the Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Board will review the ISS from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change in relation to any matter contained in the ISS, changes will be reflected within six months of the change occurring.

The Regulations require all Administering Authorities to take 'proper advice' when formulating an investment strategy. In preparing this document and the overall investment strategy, the Board has taken advice from Local Pensions Partnership Investments (LPPI) which is a Financial Conduct Authority (FCA) regulated investment manager with specific expertise and regulatory permissions to provide advice on investments. Advice has also been received from other advisers as necessary in respect of specific elements of the ISS.

Investment objectives

The Fund's primary objective is to ensure that over the long-term the Fund will have sufficient assets to meet all pension liabilities as they fall due.

In order to meet this primary objective, the Board has adopted the following investment objectives:

- Optimise the net returns from investments while keeping risk within acceptable levels and ensuring liquidity requirements are met at all times
- Contribute towards achieving and maintaining a sustainable future funding level
- Enable employer contribution rates to be kept as stable as possible

The Board has adopted a range of metrics to assess the likelihood of these objectives being achieved in practice.

The Fund will use its influence as a large institutional investor to encourage responsible long-term behaviour.

Strategic Asset Allocation

In order to prudently diversify sources of risk and return, the Fund allocates capital across a wide variety of different asset classes. To be added to the portfolio, asset classes are first judged for suitability; they have to be well understood by the Board, consistent with the Fund's risk and return objectives and they have to make a significant contribution to the portfolio by improving overall net return and risk characteristics. In addition, the new asset classes have to be less than perfectly correlated with equities and bonds, so that the portfolio benefits from increased diversification. The Board has identified a total of seven asset classes plus cash (viewed as a store of liquidity) that combined form the Strategic Asset Allocation.

The seven asset classes shown in Appendix 1 have different exposures to economic factors such as Gross Domestic Product (GDP) growth and inflation, and combine different geographies – each an important consideration relative to the sensitivities of the Fund's liabilities and risk management.

These are the building blocks used to specify the Strategic Asset Allocation.

Long-term Strategic Asset Allocation

The Board has determined benchmark weights for each asset class which it believes to be best suited to meeting the long-term objectives of the Fund. It has also identified tolerance ranges within which shorter-term variations will be tolerated. Movements within these ranges are permitted for any reason, including changes in market values and opportunities to enhance returns or manage risks. The benchmark weights and tolerances are shown in the table below.

Asset class	Strategic Asset Allocation %	Tolerance range %
Public Equities	50	±10
Private Equity	5	±5
Fixed Income	2.5	±7.5*
Credit	15	±5
Infrastructure	13	±5
Real Estate	10	±5
Environmental Opportunities	3	-3**
Cash	1.5	±6*
Total	100	

* Subject to a minimum of zero

** Subject to a maximum of 3%

Environmental Opportunities Asset Class (EOAC)

The Fund committed to increase exposure to climate solutions as part of our Institutional Investors Group on Climate Change (IIGCC) Asset Owner Net Zero commitment. Climate investing is the LPFA's thematic opportunity to enhance returns through capitalising on the investment opportunity presented by the global transition to a low carbon economy, as well as a means to address systemic risk to which our Fund is exposed. The EOAC is an asset class created for this purpose.

Tolerance ranges

The Fund's exposure to each asset class is to be maintained within the applicable range as long as attractive opportunities that meet LPFA's return, risk, and cash flow requirements can be found. In the absence of suitable opportunities, investments will not be 'forced' and under/over allocations may be made to any asset class. This includes allocations falling outside of the tolerance range. Should any allocations fall outside of the range the Board shall require the allocation to be brought back within the range as soon as suitable opportunities are identified.

The mandates are managed by LPPI, to whom the Fund has delegated investment management and implementation duties in line with the principle of asset pooling within the Local Government Pension Scheme (LGPS). LPPI has discretion to act on behalf of the Board in order to implement the allocations set out in the Strategic Asset Allocation. This includes determining any over/under allocation within the tolerance ranges. Should allocations fall out of the ranges, LPPI is responsible for informing the LPFA and agreeing appropriate action.

Each asset class has its own specific investment objective and within each asset class there are further diversification controls. The investment objective for each asset class is set out in the table below. Note that all returns referred to below are net of fees and expenses.

Asset class	Objective	Benchmark	Target return
Public Equities	To deliver long-term total return from investing in Global Public Equities, investing in underlying funds managed by LPPI and by external third parties.	MSCI All Country World (net dividends reinvested) Index (GBP)	Benchmark +2% per annum, over a full market cycle, at least seven years
Private Equity	To provide long-term total return by accessing attractive private equity opportunities at a competitive overall cost.	MSCI World SMID Cap (net dividends reinvested) Index (GBP Hedged)	Exceed benchmark by 2% to 4% per annum, over a rolling ten-year period
Fixed Income	To deliver long-term total return from investing in Global Fixed Income instruments.	Bloomberg Barclays Global Aggregate Bond Index (GBP Hedged)	Benchmark +0.25% per annum, over a full market cycle, at least seven years
Credit	To gain cost effective exposure to credit and credit-related assets globally, with a focus on harvesting illiquidity, complexity and idiosyncratic credit risk premia and on minimising expected losses.	Composite of • 50% Morningstar LSTA US Leverage Loan Index (GBP Hedged); and • 50% Bloomberg Barclays Multiverse Corporate Index (GBP Hedged)	Benchmark +1% to 3% per annum over a full market cycle, at least seven years
Infrastructure	To gain cost effective, diversified exposure to global infrastructure assets located predominantly in the UK, Europe and North America. Provide predictable cash flows and partial inflation participation.	UK CPI +4% per annum	Benchmark +0% to 2% per annum, over a rolling ten-year period
Real Estate	To gain cost effective, diversified exposure to UK and international property assets. Provide predictable cash flows and partial inflation participation.	MSCI UK Quarterly Property Index (GBP)	UK CPI +3% to 5% per annum, over a rolling ten-year period
Environmental Opportunities	To gain exposure to investments that contribute towards climate mitigation, climate adaptation, and/or protection, restoration, sustainable management of nature encompassing biodiversity, ecosystems, water and marine resources.	Composite of • 60% MSCI All Country World (net dividends reinvested) Index • 40% Bloomberg Barclays Global Aggregate Bond Index (GBP Hedged)	In line with benchmark
Cash	To provide a store of liquidity for benefit payments and investment purchases.	SONIA	In line with benchmark

Strategic Currency Allocation

The risk and return profile of any asset is made up of two distinct elements:

- The characteristics of the asset itself
- The currency in which it is denominated

It is possible to isolate these two elements and consider them separately. The Board has considered the characteristics of a range of developed market currencies and determined a Strategic Currency Allocation, which is complementary to the Strategic Asset Allocation.

The Strategic Currency Allocation specifies a target exposure to each currency, and ranges within which the exposure must be held. These target exposures can be higher or lower than the exposure provided directly by the underlying fund assets. Forward contracts, managed by a specialist currency manager, are used to deliver the required exposure to each currency.

The Strategic Currency Allocation is set out below.

Geography	Currency	Underlying currency exposure at 31 December 2024 %	Strategic Currency Allocation %	Tolerance range %
UK	GBP	37.05	39.25*	N/A
USA	USD	44.09	42.50	± 0.25
Euro Area	EUR	8.84	11.50	± 0.10
Japan	JPY	1.73	3.00	± 0.10
Canada	CAD	1.72	1.75	± 0.10
Switzerland	CHF	0.68	0.75	± 0.05
Australia	AUD	0.84	1.00	± 0.05
Sweden	SEK	1.03	0.25	± 0.05
Norway	NOK	0.06	0.00	± 0.05
New Zealand	NZD	0.06	0.00	± 0.05
Other**	–	3.91	N/A	N/A
Total		100%	100%	

* GBP exposure will be offset by any unhedged/floating exposures, except the Danish Krone (DKK).

** The exposures to currencies not specifically mentioned in the Strategic Currency Allocation (included as "other" in the table above) will be unhedged and effectively form floating weights in the Strategic Currency Allocation. The DKK will be proxied to EUR and count towards the overall Euro Area target.

Investment governance

The Board is responsible for setting the objectives and risk tolerances of the Fund. The Board has specified a number of metrics and triggers to measure and monitor the Fund's objectives. LPPI report quarterly to the Board against these metrics. Based on these parameters, the Board determines the Strategic Asset Allocation and Strategic Currency Allocation that it believes represents an appropriate balance between the investment objectives. The implementation of the asset allocation is delegated to an expert investment manager, in this case, LPPI. The LPFA is a 50% shareholder in Local Pensions Partnership (LPP), with the remaining 50% owned by Lancashire County Council, and maintains ongoing corporate governance controls but plays no direct role in investment management activities. The Board monitors the performance of LPPI and the portfolio.

Investment implementation

The implementation of all investments is delegated to LPPI. The partnership was set up by the LPFA and Lancashire County Council for the purpose of achieving economies of scale, greater internal resource, and superior investment opportunities. The partnership brings the benefit of scale and expert resources beyond that which would be available to the Fund alone. This facilitates lower costs and a broader opportunity set which together facilitate improved net returns.

Pooled vehicles are used wherever appropriate. Where assets are not physically pooled, the management is typically pooled. LPPI has created seven asset class categories to allow access to the asset classes listed in the Strategic Asset Allocation section. The asset class categories are a combination of internally managed and externally managed strategies that offer an effective and efficient way of achieving asset class exposures.

The Fund also expects to benefit from scale via pooling arrangements with other funds in order to better access direct investments in areas such as infrastructure. Some of the asset class categories are expected to use derivatives as part of their strategies. Derivatives can reduce implementation costs or change economic exposures. They may be used for both active and passive management strategies. The broad use of derivatives is explicitly approved by the Board both for investment purposes and efficient portfolio management. Both exchange traded and over the counter derivatives may be used.

Pooling of assets

The Board has delegated the management of its investments to LPPI who are responsible for managing 100% of the assets of the Fund. A significant majority of the Fund's assets has been transitioned into investment pooling vehicles managed by LPPI. A small minority of assets remains on the balance sheet of the Fund as 'legacy assets'. Assets are held as legacy assets if the costs of transitioning outweigh any potential gains, the assets have reached 'harvesting period', or transitioning would have a negative impact on the Fund's investment strategy. Proceeds from assets in 'harvesting period' will be reinvested through LPPI pooled funds.

Asset class	% Pooled in IPVs*	Legal structure
Public Equities	100.00	Authorised contractual scheme
Private Equity	100.00	Limited partnership
Fixed Income	100.00	Authorised contractual scheme
Credit	100.00	Limited partnership
Infrastructure	99.40	Limited partnership
Real Estate	91.21	Authorised contractual scheme
Environmental Opportunities	100.00**	Limited partnership
Total	97.29	

* IPV (Investment Pooling Vehicle) specifically refers to funds originated from and managed by LPPI. Data as at 31 December 2024. The total includes the Fund's cash assets and excludes Environmental Opportunities.

** Data as at 1 April 2025.

Risk management

Maintaining adequate funding, both at an individual employer level and for the Fund as a whole, is an important priority for the Board. Funding position is influenced by changes in asset and liability values and for this reason the Board has adopted an Asset and Liability Management approach. This approach has historically included the use of a liability hedging programme to manage exposure to inflation and interest rates.

Diversification is a very important risk management tool. As described in the Strategic Asset Allocation section, the Board will seek to maintain a diversified exposure to several different asset classes, geographies and currencies.

The Board expects this to provide (at least) two levels of protection: first, in periods of market turmoil some assets will preserve capital better than others, allowing the portfolio to better withstand a shock. Second, in periods of rising markets, some assets will do better than others, and since the Board does not know with certainty which ones will do best, it is better to diversify.

Another line of defence at the Fund level is to examine how the portfolio would perform under different scenarios including stress scenarios. The objective is to minimise the impact that losses to the portfolio have on future contribution rates. When setting the Strategic Asset Allocation and Strategic Currency Allocation the Board has considered different stress scenarios and possible outcomes.

The asset class categories included in the Strategic Asset Allocation are also subject to a number of constraints to allow for intra-asset class diversification, including sector, country, manager and maximum exposure to a single asset.

Performance measurement

Fund performance is measured at a number of different levels.

At the highest level, the Board has set a Return Objective of UK CPI +3.6% per annum. LPPI will seek to manage the Fund with a view of achieving the Return Objective. The Board recognises that the Return Objective is intended to apply only over the very long-time horizons over which the Fund's liabilities will be paid. The Board also notes that the achievement or otherwise of the Return Objective is not necessarily a good measure of LPPI's performance.

The performance of the Fund is also measured relative to the returns on the notional Policy Portfolio. The performance of the Policy Portfolio is calculated based on:

- Allocations to each asset class in line with the Strategic Asset Allocation
- Returns on each asset class in line with the benchmark for that asset class

The performance of the pooling arrangements is monitored via regular reporting and through periodic meetings. Performance of LPPI is measured against the Policy Portfolio. LPPI seeks to outperform the Policy Portfolio on a risk adjusted basis by tilting asset weights in an opportunistic manner, via active sub-asset class selection, and selecting the best stocks/managers for each of the pooled funds.

The Board also monitors the performance of each asset class relative to the benchmark for that asset class.

Where performance falls short of expectations the Board will identify the cause of this underperformance and will respond appropriately. The Board's response could include:

- Altering the Strategic Asset Allocation (for example, where asset allocation is the underlying cause)
- Requesting changes to the management of the pooled funds (for example where management skill within LPPI is the underlying cause)
- Withdrawing approval of any of the LPPI pooled funds from the list of approved funds for use within the Policy Portfolio.

In practice, the LPFA would expect to work collaboratively with LPPI to identify and remedy the cause of any underperformance.

Environmental, Social and Corporate Governance (ESG) Policy and approach to social investments

The LPFA is committed to being a long-term responsible investor. LPPI complies with and follows the principles of both the UK Stewardship Code 2020 and the United Nations (UN)-backed Principles of Responsible Investment. The LPFA is also a member of the Asset Owner Council, the IIGCC, and the Local Authority Pension Fund Forum (LAPFF).

Responsible Investment (RI) is an investment approach which recognises the significance of the long-term health and stability of the market as a whole and encompasses:

- The integration of material ESG factors within investment analysis and decision-making
- The active use of ownership rights in order to protect and enhance investor value over the long term – including through voting and engagement

The objective of RI is to decrease investor risk and improve risk-adjusted returns. RI principles are at the foundation of LPFA's approach to stewardship and underpin its fiduciary duty to its beneficiaries. Details of the LPFA's approach to responsible investment are set out in our RI Policy. The LPFA has a responsibility to take reasonable steps to be able to verify and demonstrate that our investments are carried out in alignment with our RI Policy.

The LPFA has identified climate change as a long-term material financial risk with the potential to impact all asset classes within the portfolio over time. Our Climate Change Policy sets out expectations of LPPI in relation to how the risks and opportunities arising from climate change will be identified, monitored and managed.

ESG integration and the active use of ownership influence are integral to the investment management services provided by LPPI, which are delivered in accordance with LPPI's RI Policy, detailed in their Annex on ESG Integration. It is LPPI's RI belief that ESG factors are relevant at every stage of the investment cycle - within investment strategy, investment selection and within the stewardship of assets in ownership. Reflecting this belief, ESG considerations feature in LPPI's key investment processes as part of asset and manager selection (underwriting), portfolio monitoring (investment oversight) and the stewardship of assets under management (active ownership).The approach to incorporating ESG factors is to establish the type and materiality of relevant issues on a case by case basis, whilst taking account of global norms, rather than to apply artificial exclusions through negative screening. ESG factors are considered over the time horizon within which specific investments are likely to be held, in order to clarify the context that risks and returns operate within and assist the evaluation of investment risks and opportunities.

The LPFA's predominant concern is to invest the Fund on the basis of financial risk and return having considered a full range of factors contributing to financial risk including both those detailed above and relevant social factors to the extent these indirectly or directly impact on financial risk and return.

Where appropriate, the LPFA may request that LPPI take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the Fund and where there is good reason to think that fund members would support this decision.

Exercising the rights of ownership

The Fund recognises that encouraging the highest standards of corporate governance and promoting corporate responsibility by investee companies protects the financial interests of pension fund members over the long term. The Fund's commitment to actively exercising the ownership rights attached to its investments reflects the Fund's conviction that responsible asset owners should maintain oversight of the way in which the enterprises they invest in are managed and how their activities impact on customers, clients, employees, stakeholders and wider society.

The routes for exercising ownership influence vary across asset types and a range of activities is undertaken on the Fund's behalf by LPPI, including direct representation on company boards, presence on investor and advisory committees and participation in partnerships and collaborations with other investors. In the case of listed equities, the most direct form of ownership influence comes through shareholder voting and engagement.

Voting

In most cases the Fund holds no direct ownership of shares of companies. However, through the investments managed by LPPI, the Fund has indirect ownership interests in listed companies across the globe. To ensure effective and consistent use of the voting rights attached to these assets LPPI works with an external provider of proxy voting and related research services. Voting is undertaken centrally rather than being delegated to individual managers and is in line with LPPI's Shareholder Voting Policy which promotes risk mitigation and long-term shareholder value creation by supporting responsible global corporate governance practices. The policy is reviewed and updated on an annual basis to reflect emerging issues and trends. A quarterly report on voting activity is available from the LPPI website which is signposted via a link from the LPFA website.

The Fund also employs a third party provider of proxy voting research to assist with monitoring of LPPI's voting activities. The monitoring enables the LPFA to demonstrate alignment between LPPI's voting and the priorities of the LPFA's climate risk commitments.

Engagement

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The LPFA appreciates that to gain the attention of companies and regulators in addressing matters of concern, it needs to join with other investors sharing similar concerns. It does this primarily through:

- Membership of representative bodies including the LAPFF and the Pensions and Lifetime Savings Association (PLSA)
- Giving support to shareholder resolutions where these reflect concerns which are shared and represent the Fund's interests
- Joining wider lobbying activities when appropriate opportunities arise

LPPI complies with the UK Stewardship Code 2020 and a statement of compliance which explains the arrangements that support its commitment to each of the 12 principles is displayed on LPPI's website.

Appendix 1 – Asset class characteristics

Asset class	Long-term return drivers	Economic growth sensitivity*	Inflation sensitivity*	Geography
Credit	• Yield (minus credit losses) • Roll down • Change in yield • Liquidity premium	Low	Medium	Diversified
Fixed Income	• Yield (minus credit losses) • Roll down • Change in yield	Low	High	Diversified
Infrastructure	• Dividend income • Dividend growth • Capital growth	Medium	Medium	Predominantly the Organisation for Economic Co-operation and Development (OECD) member countries
Private Equity	• Dividend income • Earnings growth • Change in valuation • Liquidity premium	Medium	Medium	Diversified
Public Equities	• Dividend income • Earnings growth • Change in valuation	High	Low	Diversified
Real Estate	• Rental yield minus Capex • Rental growth • Capital growth	Medium	Medium	Predominantly UK
Environmental Opportunities	• Dividend income • Dividend growth • Earnings growth • Capital growth • Change in valuation • Liquidity premium	Medium	Medium	Predominantly OECD member countries

* Sensitivities shown are to positive shocks, that is, if growth and inflation are higher than expected.