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Investment Strategy Statement

west sussex county council

lgps

Introduction and Purpose

The County Council is the designated statutory body responsible for administering the West Sussex Pension Fund ("the Fund") on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

Responsibility and governance for the Fund, including investment strategy, fund administration, liability management and corporate governance is delegated to the West Sussex Pension Committee.

The Committee have an obligation to act as fiduciaries, safeguarding the interests of beneficiaries of the Scheme. Decisions must be taken in accordance with public law obligations, including the obligations of reasonableness, rationality and impartiality. The pursuit of appropriate risk adjusted return should therefore be the Committee's predominant concern but it may also take non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme.

The Fund recognises that climate change is one of the material Environmental, Social and Governance (ESG) factors which pose a potential financial risk over the long term, and that it is important to consider the implications for the Fund of the challenges posed by climate change.

In this context the Fund seeks to integrate ESG issues throughout its investment decision-making process, from setting investment strategy to monitoring the Fund's investment managers – taking appropriate advice. The Committee expects that environmental, social and governance principles, including the transition pathway to a low carbon future, are considered at all times in the investment process.

This Investment Strategy Statement is considered an important document to provide transparency in relation to how investments are managed and complies with the requirements under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 in respect of the need to publish a statement of the Pension Fund's investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This Statement will be reviewed at least every three years and will be updated to reflect any substantive changes in the interim. The last formal review was at the [Pensions Committee meeting in March 2021]. This document has been prepared after taking appropriate advice.

Investment strategy and the process for ensuring suitability of investments

When considering its investment strategy, it is important to consider:

a) The Regulations require that the Fund maintains as nearly constant employer contribution rates as possible and takes a prudent long-term view, and this is reflected in the Funding Strategy Statement.

b) The objective to maintain affordability of the Fund to employers as far as this is reasonable, as set out in the Funding Strategy Statement.

c) The Investment Strategy objective to meet pension liabilities as they fall due, maximising returns to keep the cost of new benefits accruing reasonable - while keeping risk within acceptable limits and contribute towards achieving and maintaining full funding.

d) The Pension Committee's investment beliefs as set out in Appendix 1.

e) The strong funding position and the desire to protect this – and reduce risk of deficits emerging.

f) Future income requirements. Whilst the Fund is currently cash flow positive, as a maturing Scheme it should also identify sources of income in order to generate cash as the Fund requires and to avoid being a forced seller of assets to pay benefits.

In this context it is considered that a successful investment strategy is one which will maintain at least 2/3rds likelihood of being fully funded over 20 years and will maintain consistent employer contributions of around 18% of pay. This is consistent with the aims of the Fund's Funding Strategy Statement and informs the assumptions made by the Actuary for funding purposes.

The Committee have set a strategic asset allocation which is based on detailed advice from the Fund Actuary, Investment Consultant and Investment Adviser through the completion of Asset Liability Modelling work. The customised benchmark sets out the intended long-term weighting to various types of investment (or asset classes), such as growth, income focused and those asset classes which provide some protection:

Asset Type	Purpose
Growth	Generate returns in line with equities Provide liquidity for de-risking Keep contributions affordable
Income	Generate a reliable income providing additional cash flows if required Additional yield versus protection assets
Protection	Change value in line with liabilities Protect against movements in interest rates and inflation expectations Provide liquidity for re-risking Keep contributions stable

This strategic asset allocation is set out in more detail below.

Asset Type	Asset Class	Strategic Allocation	Geography	Currency
Growth	Listed Equity	45.0%	Diversified	Diversified
Growth	Private Equity	5.0%	Diversified	Diversified
Income	Direct property	10.0%	UK	GBP
Income	Infrastructure	5.0%	Global	Diversified
Income	Private Debt	5.0%	Global	Diversified
Protection	Bonds	30.0%	Diversified	Diversified

In the context of the table above it should be noted that whilst the Fund has a 0% allocation to cash, cash can be held by the Fund's investment managers (within ranges) and working balances are managed to pay benefits, cover invoices and fund private equity and direct property acquisitions.

The Fund's investment strategy will be reviewed at least every three years. However, it is not anticipated that significant changes will be made on a short-term basis.

If the funding level falls back to 90% the Pensions Committee will consider increasing the proportion of growth assets and/or raising the contribution rate target. Therefore, there is a need to maintain liquidity within the bond portfolios.

Risks

The principal risks affecting the Fund are set out in its Business Plan. However, risks relating to investments are summarised below:

Risk Theme	Mitigation	Rating
The Committee fail to adopt an appropriate investment strategy in response to the funding level falling below 90% funded	• Monitor, maintain & review the Investment Strategy Statement. • Monitor & review the investment managers which will ensure compliance with the performance and risk targets. • Ensure the Investment Strategy Statement compliments the Funding Strategy Statement. • Modelling work undertaken regularly.	Green
The Pension Fund does not provide a clear and suitable investment strategy for Fund managers to follow	• Strategic asset allocation adopted by the Fund Managers is considered by the Pensions Committee and the fund's independent adviser, with awareness of liquidity requirements. • Fund managers' performance is monitored quarterly against the performance of the fund-specific benchmark and the returns assumed in the actuarial valuation. • Investment Managers held to account at Committee meetings. • Performance against the Agreement is monitored. • Contractual requirements within the Investment Manager Agreements set out the required benchmark and targets.	Green
Contractual requirements not met by investment managers	• Regular communication with all contracting entities. • Service levels set out clearly in contract. • Service levels monitored regularly. • Complete contract manager register setting out who within the Pensions Team is responsible for managing contract day to day and routes of escalation.	Green
Pressure from employers results in change to investment strategy due to ESG factors	• Ensure active engagement by Fund Managers with companies in these areas. • Regular dialogue with Fund Managers regarding reasoning behind the stock being held. • Training for all decision makers regarding obligations and responsibilities.	Amber
The introduction of asset pooling impacts on the Fund's ability to implement its investment	• Continued strong involvement in the work of the ACCESS Group at officer and at Fund Chairman level. • Involvement in the procurement work and the Pool's governance work • Engagement with external advisers.	Amber

strategy successfully or the Administering Authority is considered to not comply with the relevant statutory guidance.		
Political environment (locally or nationally) impact on investment markets and legislative requirements.	• Ensure active engagement by Fund Mangers. • Training for all decision makers regarding obligations and responsibilities including guidance from the Scheme Advisory Board and others.	Amber

Approach to Responsible Investment

Investing for the Future

The Committee of the West Sussex Pension Fund (the 'Fund') believe that investing the Fund's assets in a manner consistent with long-term sustainable outcomes is a core pillar of the Committee's fiduciary duty to its members.

The Fund is a long-term investor with the primary aim to deliver financially sustainable returns to meet the future pension benefits of its members, by allocating across investment types whilst retaining an appropriate level of diversification and risk.

The Committee believe that acting as a responsible investor of the Fund's assets should be fully integrated into investment decision-making, and therefore seek to ensure that the Fund considers all aspects of responsible investment, from investment manager appointment and monitoring through to discharging the rights and responsibilities of asset ownership in order to encourage and promote high standards of governance and corporate responsibility in the underlying companies and assets in which the Fund invests, as this ultimately creates long-term value for the Fund and its beneficiaries.

This includes the need to manage Environmental, Social and Governance (ESG) issues that may be financially material to the Fund. As part of this the Committee recognises that:

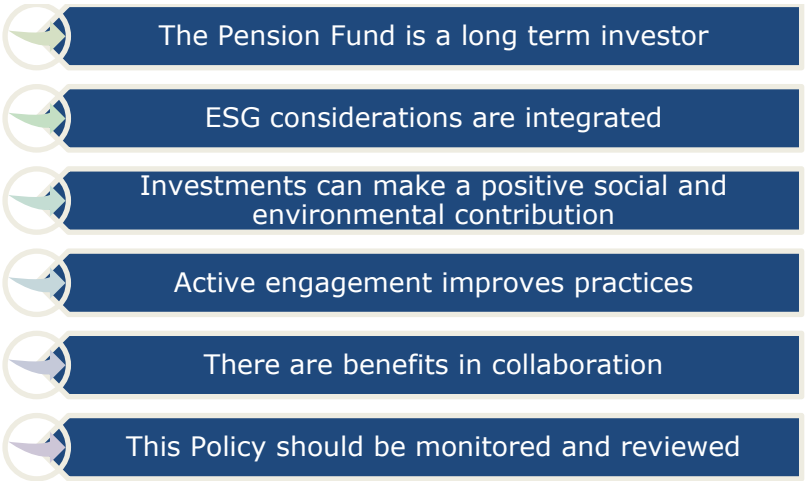
- ESG risks and opportunities can be both long-term and short-term in nature. As part of an interconnected society, investing the Fund's assets in a particular way can lead to wider societal and environmental outcomes (whether positive or negative) and the way in which the Fund’s assets contribute to this will be considered.

- In order to appropriately capture these opportunities and mitigate these risks, it is important that the Committee and the Fund's appointed investment managers embed ESG matters into their consideration of the Fund's strategy and the management of its assets on an ongoing basis.

- It is important to consider the appropriate nuances and differences which apply to differing asset types and taking appropriate expert advice. The Fund adopts a flexible approach to managing its investment strategy and asset allocation in order to ensure the strategy is robust from a risk and return perspective.

Principles and Implementation

The Committee have discussed and reviewed their beliefs relating to RI. The Fund's RI Beliefs and Principles are:



The sections below set out how these principles are applied in practice.

1 The Pension Fund is a long-term investor

Principle

The Fund is a long-term investor, with liabilities stretching out for decades to come. It therefore seeks to deliver long-term sustainable returns.

There is an opportunity to generate better expected returns by making decisions with a long-term outlook and within this the Fund recognises the relevance of ESG considerations when setting its investment objectives, undertaking ongoing monitoring, and assessing future risks.

The identification and management of ESG risks that may be financially material is consistent with the Fund's fiduciary duty to its members.

The Fund recognises that climate change is one of the material ESG factors which pose a potential financial risk over the long term, and that it is important to consider the implications for the Fund of the challenges posed by climate change.

Implementation Approach

The Fund has appointed third-party investment managers to manage the assets of the Fund according to set mandates. These mandates reflect long term performance expectations and require that appointed managers consider a number of factors – including financial – when making decisions about which companies to buy, sell and retain. Once an investment is made the Committee

expects managers to act as responsible owners and engage with the companies and assets invested in.

The Fund invests in physical properties via its appointed investment manager. Physical property is typically a long-duration asset, and commensurately is exposed to multiple ESG factors (such as energy efficiency; use of certain materials in the construction and/or refurbishment process; susceptibility to flood risk; etc). The Committee believe that understanding the characteristics of the Fund's property portfolio is fundamental in monitoring sustainability. The Committee will work with its appointed property investment manager to understand the portfolio's aggregate energy efficiency score and the benefits in setting of metrics and targets for improvements across the portfolio over time (such as waste management; energy consumption; etc). The Committee will review the Global Real Estate Sustainability Benchmark ('GRESB') score applicable to the mandate on an annual basis and will engage with its manager should there be any deterioration in scoring.

With regard to climate change, the Committee has discussed the Fund's exposure to climate change risks and the desired approach to divesting from fossil fuels. This has included receiving details of the approach taken by other LGPS Constituent Authorities and pooling arrangements, along with maintaining currency with the actions of other employers participating in the West Sussex Scheme, including West Sussex County Council's policy direction and their ten-year plan to combat climate change (attaining carbon neutrality in 2030). In response:

- The Committee are supportive of the beliefs and endeavours of its participating employers including the County Council, acknowledging that climate change presents a systemic risk which has potential implications on a cross-asset class basis (and, thus, on the Fund's investments and ultimately its members and beneficiaries). As part of this the Committee welcome and seek investment opportunities commensurate with a low-carbon future.

- The Fund recognises that exposure to fossil fuel investments is one component of overall exposure to climate change risks and acknowledges the importance of considering climate change risk holistically. The Committee has sought to take an approach which is appropriate in the context of the Fund's long-term investment objectives.

- At this time, the Committee has agreed that it will not pursue a policy of divestment from fossil fuels and supports a stance of engagement on this topic. The Committee considers that pursuing an engagement-led approach allows the Fund, through the actions of its appointed investment managers, to be an active participant in supporting the transition to a low-carbon environment and encouraging the companies in which it invests to transform and adapt to meet the needs of a changing world. The Committee will monitor this area as it develops.

The Committee also recognise that climate change does not have implications only for the value of assets, but should be considered from an integrated risk management perspective in terms of the implications for the Fund's formal actuarial valuations, and the combined impact on the funding level of the Fund. As such, the Committee has considered input from its appointed actuarial adviser and considered tools which can illustrate the impact of climate change risks on the Fund's liabilities.

2 ESG considerations are integrated

Principle

The Fund seeks to integrate ESG issues throughout its investment decision-making process, from setting investment strategy to monitoring the Fund's investment managers – taking appropriate advice. The Committee expects that environmental, social and governance principles, including the transition pathway to a low carbon future, are considered at all times in the investment process.

Implementation Approach

Whilst the appointed third-party investment managers are responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Fund, the consideration of ESG issues are integrated into the Fund's appointment and agreements. All investment managers are required to provide a statement setting out the extent to which they take ESG considerations into account in their investment processes and have a continued dialogue with the Committee on the impact of their engagement activity to provide evidence of active ownership activities of investments held.

The requirement set out above includes the Fund's physical property portfolio. The Fund's appointed property investment manager is expected to engage proactively with its assets in order to improve their characteristics over time, in order to safeguard and enhance the value of the Fund's portfolio. These enhancements (such as reduced energy consumption; water efficiency) are positively linked to the Fund's aim to support long-term sustainable outcomes.

Agreements with investment advisers and consultants also set out the requirement that each considers and integrates ESG issues when providing investment advice. This means that the Fund takes full consideration of ESG issues as they relate to its strategic asset allocation, including the impact of ESG matters on differing asset types and where ESG issues could have a material impact on the value of the Fund's assets and the funds in which the Fund invests.

3 Investments can make a positive social and environmental contribution

Principle

The Committee welcome investment opportunities which deliver a positive and measurable societal and/or environmental outcome, combined with an appropriate level of financial return. Where such opportunities exist and are investable and appropriate for the Fund, the Committee's view is favourable where investment without financial detriment is possible (i.e. without compromising on financial returns).

Implementation Approach

The Committee recognise the recent judgement from the UK Supreme Court which permits Local Government Pension Schemes to apply non-financial considerations (such as ethical preferences) to investment decision-making, provided that there is no significant risk of financial detriment, and that the administering authority has good reason to believe that members would support the decision.

4 Active engagement improves practices

Principle

The Committee believe that the Fund has a duty to exercise its stewardship and active ownership responsibilities (such as use of proxy voting rights).

The Fund recognises that engagement and stewardship activity is applicable to all asset classes and is broader than the use of voting rights alone. Corporate engagement can deepen the knowledge of and confidence in those companies invested in, build relationships and collaboration with company management and allows our managers to, where necessary, drive corporate conduct on issues that protect and enhance the companies' long-term value.

Implementation Approach

The Fund seeks to exercise its influence through engagement with its investment managers (and consequently portfolio companies) as part of its stewardship duties to its beneficiaries.

The Committee have mandated that its appointed managers are proactive in their engagement and asset stewardship activity and encourage its appointed investment managers to actively engage with investee companies effectively by using its influence as a long-term investor to encourage positive behaviour and support improved practices.

5 There are benefits in collaboration

Principle

The Fund recognises that collaboration with other investors is a powerful tool to keep abreast of developments in this area and gives the potential for collective action to influence the behaviour of companies, policy makers and other industry stakeholders.

Implementation Approach

The Fund expects its managers to incorporate ESG issues into investment analysis and decision making, be active owners, disclose their activities and promote the PRI principles within the asset management industry.

The Fund’s appointed investment managers participate in the Principles for Responsible Investment (PRI) initiative and GRESB.

The Fund also actively inputs into the ACCESS Pool's approach to Responsible Investing (RI) as this develops, to ensure that its objectives and approach to RI are supported via the ACCESS pooling arrangement and in order to explore how asset pooling can enhance the Fund's own approach to RI.

6 This Policy should be monitored and reviewed

Principle

The Fund recognises that transparency and disclosure is an important aspect of being a responsible investor, and is keen to communicate with its stakeholders regarding the actions it is taking. The Fund aims to be transparent and accountable by disclosing its RI policy and activity via the Fund's website. The Fund also recognises that our stakeholders are likely to have an interest in how the Fund's Responsible Investment objectives are enshrined through its investment strategy. Should stakeholders share their views with the Pensions Committee, these will be considered and discussed.

The Committee requires that its appointed investment managers provide information about their exposure to climate risks, voting, engagement and stewardship activity. Independent and objective views are sought by the Committee on its managers' capabilities and policies in this area on an annual basis.

Implementation Approach

The Committee will consider information from its appointed investment managers in relation to:

- Themes and particular issues which each are prioritising, and how each manager is exerting influence on behalf of the Fund and its members.
- 'Case study' examples of engagement outcomes.
- Annual PRI scores attributable to each fund manager
- Global Real Estate Sustainability Benchmark ('GRESB') scores for the Fund's appointed real estate fund manager,

The Committee will also consider an independent and objective view regarding the engagement capabilities of its appointed investment managers.

The Fund will:

- Welcome communications from the Fund's members relating to RI.
- Make the Fund's RI policy available to members and incorporate the RI policy into the way the Fund communicates and interacts with its members.
- Make the Fund's RI policy available online.
- Report on the Fund's progress and developments in the way it approaches RI matters through its Annual Report.

Approach to Asset Pooling

The Fund is part of the ACCESS Pool and intends to invest its assets through the ACCESS Pool as and when suitable pool investment solutions become available, based on the following considerations:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund

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

The Fund intends to keep its property allocation and legacy private equity investments outside of the formal pooling arrangement proposed based on ongoing value for money, large one-off transition costs and illiquidity of these assets. Any asset that remains outside of the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate and whether it continues to demonstrate value for money.

Appendix 1

Investment Beliefs

The Committee's beliefs are set out below:

- The Fund's investment strategy should be reviewed in conjunction with each actuarial valuation
- The Fund should ensure that Environmental, Social and Governance matters form a core part of any manager selection decision and should encourage its investment managers to engage with companies to drive positive change, reflective of a transition pathway to a low carbon future.
- Corporate engagement is preferred to exclusion of stocks from the Fund.
- The Committee has a preference for avoiding a large number of separate manager relationships.
- Fees and costs incurred within investment manager mandates are important though the emphasis is on achieving the best returns for the Fund net of fees.
- High conviction active management of the Fund's investments is expected to provide higher returns net of fees to the Fund over the long term than passive (index tracking) investment.
- The performance of active managers should be assessed over suitably long periods.
- As the Fund remains open to new members and employer covenants are generally strong, it is appropriate to take a long-term view when setting the investment strategy.
- There is expected to be a long-term risk premium to be earned from investing in equities, credit, property and illiquid assets, relative to government bonds.
- Illiquid investments should be considered where an attractive premium return is expected to be available, though the total allocation within the Fund will be limited.
- Local investments should be considered, though the risks and expected returns should be commensurate with comparable investment opportunities elsewhere.
- The level of risk within the investment strategy should be considered in conjunction with the funding position of the Fund. Different levels of risk may be taken at different funding levels.
- The Fund should take investment risk in order to meet its objective of stable and affordable contribution rates for employers.
- The Committee should not take short term tactical asset allocation positions relative to the strategic asset allocation.
- The Committee do not expect the Fund's managers to take substantial short-term tactical asset allocation positions relative to their benchmarks. Mandates will be defined accordingly.
- Well managed companies will produce superior returns for the Fund over the long term.
- The Fund should exercise its voting rights as fully as possible.