

London Borough of Hammersmith & Fulham Pension Fund

Draft Investment Beliefs

This paper has been prepared for the Pension Fund Committee of the London Borough of Hammersmith & Fulham Pension Fund (“the Fund”). The purpose of this paper is to provide a draft set of investment beliefs of the Pension Fund Committee for discussion.

Investment objectives in the Investment Strategy Statement (“Statement”)

To provide a framework for the Pension Fund Committee’s beliefs, the Statement adopted by the Fund covers each of the following six objectives in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016:

- A requirement to invest fund money in a wide range of investments;
- The authority’s assessment of the suitability of particular investments and types of investment;
- The authority’s approach to risk, including the ways in which risks are to be measured and managed;
- The authority’s approach to pooling investments, including use of collective investment vehicles;
- The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
- The authority’s policy on the exercise of rights (including voting rights) attaching to investments.

The draft investment beliefs are shown below.

London Borough of Hammersmith & Fulham Pension Fund – draft Investment Beliefs Statement

This is the Core Belief Statement of the London Borough of Hammersmith & Fulham Pension Fund (“the Fund”).

The Statement is to set out the Fund’s key investment beliefs. These beliefs will form the foundation of discussions, and assist decisions regarding the Fund’s structure, its strategic asset allocation and selecting investment managers.

1. Investment Governance

- a) The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund’s assets, such as cash management.
- b) Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Pension Fund Committee’s decisions.
- c) The ultimate aim of the Fund’s investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity, cashflow generation and the long-term ability of the Fund to meet these obligations.
- d) The Fund is continuously improving its governance structure through bespoke training to implement tactical views more promptly, but acknowledges that it is not possible to achieve optimum market timing.

2. Long Term Approach

- a) The strength of the employers’ covenant allows a long term deficit recovery period and enables the Fund to take a longer term view of investment strategy than most investors.
- b) The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund’s liabilities.

- c) Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
- d) Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

3. Environmental, Social and Governance (ESG) factors

- a) Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
- b) Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
- c) In order to improve corporate governance, where possible, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.
- d) Environmental, social and governance considerations form a part of the Pension Fund Committee's decision-making process when making investment allocations. Allocations to alternative investment asset classes, such as renewable infrastructure, offer the Fund opportunity to undertake a best practice approach to ESG investment considerations.
- e) Where the Fund invests in passively-managed funds which replicate benchmark indices, where possible the Pension Fund Committee will explore ESG-tilted indices.
- f) If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

4. Asset allocation

- a) Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private markets, property, infrastructure and renewable infrastructure) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).
- b) Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
- c) In general, allocations to bonds are made to achieve additional diversification. When the Fund approaches full funding level, it may also use bond based strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

5. Management Strategies

- a) A well-balanced portfolio has an appropriate mix of passive and active investments.
- b) Passive, index-tracker style management can provide low cost exposure to equities and bonds, and can be especially attractive in efficient markets.
- c) Active management can be expensive but can provide additional performance and diversification. Fees should be aligned to the interests of the Fund rather than performance of the market.
- d) Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

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Risk Warnings

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

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