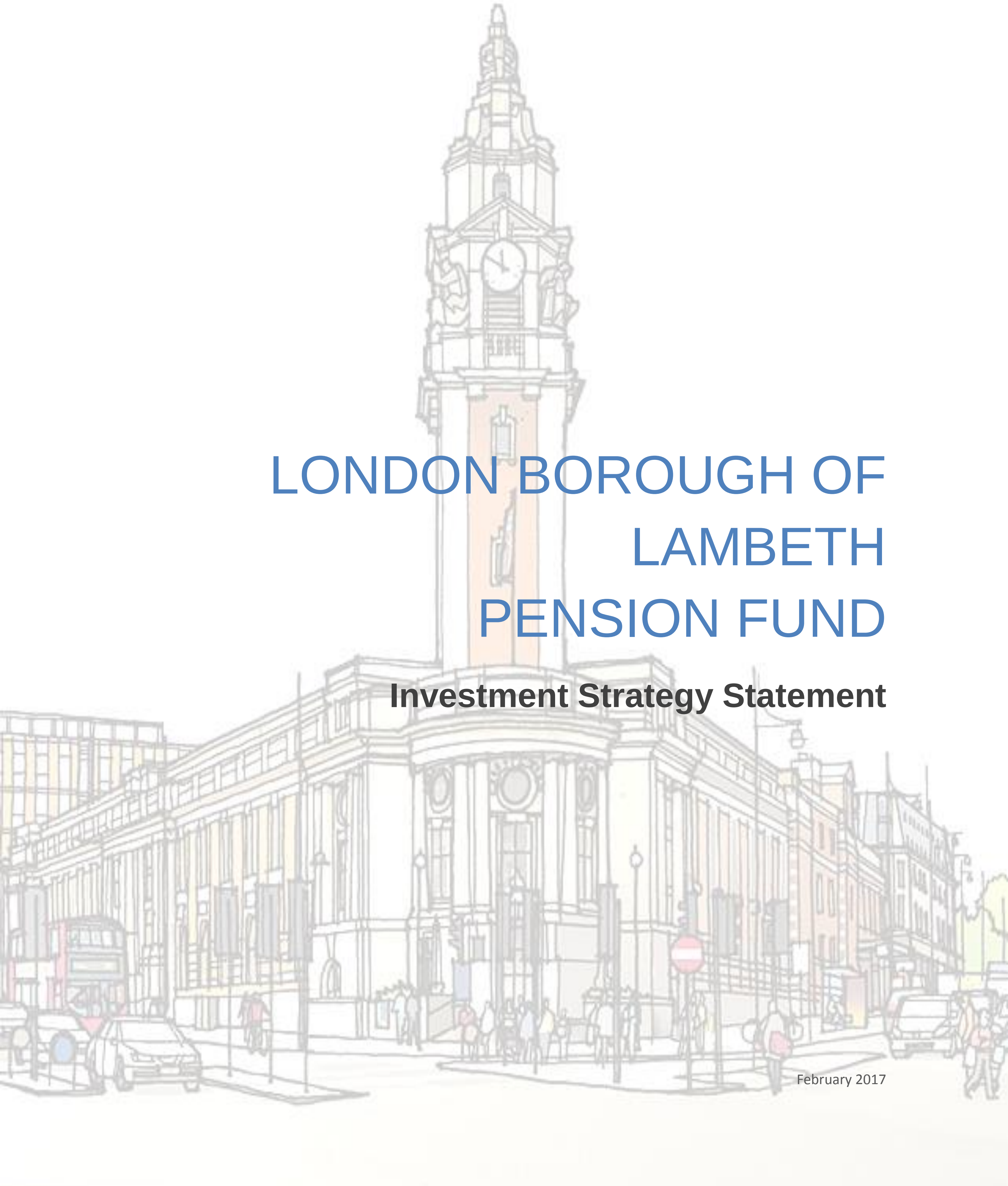

LONDON BOROUGH OF LAMBETH PENSION FUND

Investment Strategy Statement

February 2017

Investment Strategy Statement

London Borough of Lambeth

Administering Authority for the London Borough of Lambeth Pension Fund

1. Statutory Requirement for an Investment Strategy Statement (ISS)

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.

In England and Wales, such a scheme was created by the Local Government Pension Scheme Regulations 2013 (The Regulations). These Regulations were made by the Secretary of State exercising powers in the Superannuation Act 1972.

Under powers contained in The Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replace the 2009 Investment Regulations. These regulations came into force on 1st November 2016.
Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State.

The Investment Strategy Statement (ISS) is a document that replaces, and largely replicates, the Statement of Investment Principles under the proposed Investment Regulations. Administering Authorities will be required to prepare and maintain an ISS documenting how the investment strategy for the fund is determined and implemented. The ISS will be required to cover a number of areas, specifically:

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

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments. This, in effect replaces Schedule 1 of the 2009 Regulations.

The statement must be published by 1st April 2017 and regularly reviewed and at least every three years. Under transitional arrangements key elements of the 2009 Regulations will remain in force until the ISS is published.
This document is designed to comply with the guidance given by the Secretary of State, and is effective from March 2017. It is proposed to review the ISS annually with any material

changes published, which is more regularly than the Regulations require, but deemed appropriate.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- The Pension Fund Annual Report and Accounts
- Actuarial Valuation.

Background to the Fund

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Lambeth Pension Fund, in effect the LGPS for the London Borough of Lambeth area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

Primary Objective

The primary objective of the Fund is as follows:

To provide for members pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.

This overall objective is supplemented by the Fund's funding and investment objectives which are detailed in this document.

London Borough of Lambeth Pension Fund's Investment Strategy

The following sections details the Fund's investment strategy, which takes into account Regulation 7(2) (a), 7(2) (b) and 7(2) (c); listed below:

2. Investment of money in a wide variety of investments

Regulation 7(2) (a) requires that administering authorities invest in a diversified portfolio of assets to ensure that risk is appropriately managed and volatility of overall return is reduced. The guidance that accompanies the regulations does not prescribe the specific asset classes over which fund monies must be invested.

3. Suitability of particular investments and types of investments

Regulation 7(2) (b) requires that in assessing the strategic allocation for the Fund, an administering authority assesses the suitability of particular investments and types of investments against the need to meet pension obligations as they fall due.

4. Approach to risk, including the ways in which risks are to be measured and managed

Regulation 7(2) (c) requires that funds describe their approach to risk within their investment portfolio, including summarising the key risks and detailing the approach to mitigate the risk (where possible or appropriate). It also requires that funds ensure that the approach is complicit with that in their Funding Strategy Statement.

Objectives of the investment strategy

The Funds primary investment objective is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Fund also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Fund. In formulating the Investment Strategy the Fund must first consider its Funding Strategy.

Funding Strategy

The objectives of the Fund's funding strategy, as detailed in the Funding Strategy Statement, are as follows:

- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);

- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a “prudent longer-term view” of the funding of liabilities as required by the UK Government.

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target.

Setting the Strategy

In assessing the suitability and variety of investments, and considering the risks, the starting point should be the fund’s overall objectives. The objectives for the Lambeth Fund are considered below:

The full objectives of the investment strategy are:

To invest in assets to target as a minimum a rate of return consistent with the annual growth in liabilities assumed in the actuarial valuation as at 31 March 2016 (the discount rate to value the liabilities was Gilt Yields plus 1.6%), with the weighting between constituent asset classes determined to reduce the expected volatility of the funding level going forward.

The Committee has determined its investment strategy after considering the Fund’s liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Employers on investment strategy, the Employers’ appetite for risk. The Committee have also received written advice from their Investment Advisers.

Against these strategic targets, the Committee regularly reviews its Investment Strategy (on a yearly basis) and in doing so considers the risk/return characteristics of each asset class and sub-asset class in this assessment. The Lambeth Pension Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The basis of the Committee’s strategy is to divide the Fund’s assets between a “growth” portfolio, comprising assets such as diversified growth funds (DGFs), equities and property, and a “stabilising” portfolio, comprising assets such as bonds and liability driven investments (“LDI”). The growth/stabilising allocation is set with regard to the overall expected return objective of the Fund’s assets, which is determined by the funding objective and current funding level, as well as the risk tolerance.

The Committee recognise the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Committee have appointed investment managers and more recently the London CIV to select and manage the allocations across asset classes, in particular where it would not be practical (or appropriate) for the Committee to commit the resources necessary to make these decisions themselves.

In assessing the suitability of investments required to form the overall portfolio the Lambeth Fund considers a number of characteristics of each asset class, and sub asset class. These characteristics include potential return, risk/volatility of returns, liquidity, duration and interest rate sensitivity. In setting and reviewing an overall investment strategy for the Lambeth Fund the starting point is always the Actuary's assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

Investment Decisions

The Committee distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

The Committee takes all such decisions themselves. They do so after receiving written advice from their officers and investment adviser. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Plan benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Officers and the London CIV. However, where such decisions are made within a pooled fund; they are the responsibility of the investment manager of the fund.

Stock Selection Decisions

All such decisions are the responsibility of the London CIV and the Fund's investment managers with which the Fund invests.

Strategic Asset Allocation

The Committee are permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- UK and overseas equities
- UK and overseas government bonds, fixed and inflation-linked
- UK and overseas corporate bonds
- Multi-asset credit (MAC)
- Convertible bonds
- Property (UK and Overseas)
- Commodities
- Hedge Funds
- Private equity
- Private credit
- High yield bonds
- Emerging market debt
- Diversified growth
- Liability driven investment products
- Cash

The Fund currently invests in both pooled and segregated portfolios. In addition the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

Balance between different types of investments

The Regulations require the administering authority to have regard for the diversification of the Fund's investments.

The Fund will, at all times, invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing.

The Fund may invest via pooled and segregated portfolios based on the appropriateness for each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

Asset Allocation and Long Term Expected Return on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under- or out-performance compared to the long term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored ('Strategic Allocation').

Current Strategic Benchmark

The Fund's strategic benchmark, as set out below, does not assume any outperformance from the investment managers. The Minimum and Maximum range allowed acts as the Fund's own limit on its investment strategy, and ensures compliance with the guidance which requires this. The expected risks and returns stated in this table are as at the date of the 2016/17 strategic review.

Asset Class	Strategic allocation (%)	Minimum/Maximum range allowed (%)	Expected return above Long Gilts p.a.*	Expected Risk (Volatility) p.a. **
Growth Assets				
Developed Global Equity	30	0-40	4.0%	18.0%
Emerging Market Equity	10	0-12	4.9%	25.6%
Diversified Growth	18	0-20	3.7%	12.4%
Property	12	0-15	3.8%	3.7%
Private Equity	5	0-10	6.3%	29.4%
Private Credit	5	0-8	4.8%	7.8%
Stabilising Assets				
Corporate Bonds	0	0-30	-0.2%	4.6%
MAC	5	0-8	1.3%	2.0%
LDI Real	15	0-30	-1.4%	20.1%

Notes:

- Expected Returns are measured against Long Gilts as the Actuary's discount rate uses this approach, the Over 15 Year Gilt Yield as at 31 March 2016 was 2.2%.
- Expected Returns are JLT's forecasts as at the time of modelling, and expected Risk figures are taken from JLT's partner RiskFirst.
- The Fund will follow a stepped approach with regards to implementing LDI. This is a long term view based on the deficit of the Fund.
- The strategic allocation to Corporate Bonds is set at 0%; however this will be transitioned from its current allocation of 30% over the longer term.

The inclusion of a diversified range of assets in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. This was the case when modelling the revised investment strategy in 2016/17.

Approach to risk

The Fund recognises that there are a number of risks that need to be factored into the Investment Strategy, and the expected estimates of volatility are reflected in the table above. The financial, demographic and regulatory risks are addressed in the Funding Strategy Statement, and so are not repeated here. This statement looks to address the financial risks for the Fund, in particular the risk of the performance of the Fund's assets not achieving the actuary's expected rate of return. The following paragraphs explain the Lambeth's approach to addressing this risk.

Investing heavily in higher risk assets (e.g. equities) would be expected to increase the long term returns achievable from the assets, and thus to reduce the contributions required to Fund the liabilities over time. However, this type of strategy would be expected to lead to volatile short to medium term results, both in absolute terms and, particularly, relative to the Fund's liabilities.

Equally, whilst investing in lower risk assets (e.g., bonds) would be expected to reduce risk within the Fund (in terms of the volatility of returns, the Funding level and contribution rates), this may not be desirable as it would lead to a lower expected return and hence higher contribution rates over the long term.

In considering the Fund's investment strategy, one must therefore bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, a number of these are considered below:

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

Manager Risk including the London CIV

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any managers where concerns exist over their continued ability to deliver the investment mandate.
- The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safe keep the assets on behalf of the Fund.

Liquidity Risk

- This is monitored according to the level of cash flows required by the Fund over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Fund's assets are invested in pooled funds which are readily realisable. As a result the

investments in less liquid asset classes such as property, hedge funds, private equity and infrastructure are limited.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- The Fund manages this by regular reviews of the investments and through investing in funds which give a wide degree of diversification.

Corporate Governance Risk

- This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Committee from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Fund's advantage.

Legislative Risk

- This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation.
- The Committee acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Market Risk

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.
- The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers.
- As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.
- Market risk comprises of the following three types of risk:

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.

Interest rate risk

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.
- The Committee acknowledge that the interest rate risk related to individual debt instruments, and particularly liability driven instruments (LDI), is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management, and hedging via swaps, particularly where LDI is involved.

Inflation risk

- This is the risk that the value of the Fund's liabilities which are inextricably linked to Consumer Price Index (CPI) inflation, increase at greater rate than the assets.
- The Committee acknowledge that inflation risk relating to the Fund's liabilities is managed by the underlying investment managers through a combination of strategies, such as diversification, investing in assets that move in line with inflation, such as Infrastructure, and hedging via swaps, particularly where LDI is involved.

Proper advice

In assessing the Fund's strategy, including an assessment of the implicit risks, and setting the maximum limits the London Borough of Lambeth has taken proper advice from JLT (Investment Consultants), with input from the Fund's Officers and Hymans Robertson, the Fund's actuaries.

5. Approach to pooling

Regulation 7(2) (d) requires that all authorities commit to a suitable pool to achieve benefits of scale. It also requires that administering authorities confirm the chosen investment pool meets Government's investment reform criteria, or to the extent that it does not, that Government is content for it to continue.

Pool Characteristics

The Lambeth Fund has formally agreed to join the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

(a) The Fund has already transitioned assets into the London CIV with a value of £190m or 14% of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

(b) The Fund will transition liquid assets into the London CIV when there are suitable investment strategies that meet the asset allocation and investment strategy available on the London CIV platform. The Fund anticipates being able to transition some of the liquid assets across in advance of April 2018.

(c) The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

The Fund holds 0% or £0m of its assets in life funds. If in the future should it hold life funds within its strategy it intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

The Fund holds £175m or 13.5% (Property and Private Equity) of the Fund held in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to dis-invest.

The Lambeth Fund intends to invest most of its assets through the London CIV, however it is recognised that this will take a number of years before this can be fully implemented. The

London CIV has a road-map for assets to move into the pool, and the Lambeth Fund intends to transition assets in line with this plan. The transition plan is shown below:

Indicative Sub-Funds Available on London CIV	2015	2016	2017	2018	2019	2020	2021	2022	2033
Global Equities (Active)	1	3	6	6	6	6	6	6	6
Global Equities (Passive)		4	5	4	3	3	3	3	3
UK Equities (Active)			2	2	2	2	2	2	2
UK Equities (Passive)		2	2	1	1	1	1	1	1
Multi Asset / DGFs		4	4	4	4	4	4	4	4
Fixed Interest & income/cashflow generating		1	3	4	5	5	5	5	5
Property				2	3	4	4	4	4
Alternative products				2	2	4	5	5	5
Private Equity					2	3	3	3	3
Real Assets				2	2	3	3	4	4
Infrastructure			1	2	2	3	4	5	6
Total Sub-Funds open	**1**	**14**	**23**	**29**	**32**	**38**	**40**	**42**	**43**

6. Approach to Environmental, Social and Governance issues

Regulation 7(2)(e) requires administering authorities to demonstrate that it considers any factors that are financially material to the performance of the fund's investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

The Committee believe that good stewardship can enhance long -term portfolio performance, and is therefore in the best interests of its members.

The Committee believe that environmental social and corporate governance ("ESG") and ethical issues can affect the performance of investment portfolios and should therefore be considered as part of the Fund's investment process.

The London Borough of Lambeth Pension Fund is a long-term active investor that takes seriously its role in fostering stewardship. We believe that sound corporate governance contributes to long-term value for our clients. These high-level Policies set out the Funds' philosophy on corporate governance and its approach to voting on behalf of clients.

Voting rights give shareholders both the opportunity and responsibility to participate in the stewardship of companies, and the Fund's policy on exercising voting rights is explained in section 7 below.

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

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

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

Social investments

The Government guidance also addresses the issue of “social investments”; meaning those that deliver a social impact as well as a financial return. The Government considers that social investments are appropriate for LGPS funds where either the social impact is simply in addition to the financial return. It also considers that investments where some part of the financial return is forgone in order to generate the social impact are also appropriate, where the administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.
To date the Lambeth Fund has not made any social investments.

7. Policy on exercising voting rights

Regulation 7(2) (f) requires administering authorities to explain their policy on exercising rights (including voting rights) attaching to investments. The guidance refers to the Financial Reporting Council's UK Stewardship Code and requires that funds explain, where appropriate their policy on stewardship with reference to the Stewardship Code.

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

Voting Policy

As responsible shareholders, the London Borough of Lambeth Pension Fund will endeavour to vote (via our agents) on shareholder resolutions in accordance with these Policies. We will be transparent in explaining the reasons for voting decisions. As companies vary in size and complexity, these Policies must allow for some flexibility, with due consideration to the particular circumstances of each company. Moreover, corporate governance requirements may be expressed differently in different markets; these Policies will be applied in a way that reflects an understanding of local and international good practice.

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

We will generally ask our agents to vote AGAINST shareholder resolutions that fail to uphold these Policies:

1. Board of Directors and Board Committees

The role of the Board of directors is to foster the long-term success of the company in the interests of shareholders. As the Board is ultimately responsible for the good management of the company, its composition is crucial.

While the structure and operation of the Board differ between companies and jurisdictions, several key principles should guide Board composition. First, the roles of Chair and CEO should generally be separate. Second, the Board should have an appropriate level of independence from management. A Board composed of a majority of independent non-executive directors can help to ensure independence. Third, Board members should be competent and effective, and should have to stand for re-election at regular intervals. Fourth, Companies should work towards addressing gender imbalance on their board of directors and should have specific target dates to achieve at least 30% female representation.

Audit, Remuneration and Nomination Committees are essential for the effective governance of companies. To promote independence from management on these key issues, these Committees should be composed entirely of independent non-executive directors.

2. Management Remuneration

An executive's total remuneration package should align the individual's interests with the objectives of the company and the interests of shareholders. While levels of pay should be sufficient to attract, retain and motivate management of the quality required to run the company successfully, excessive compensation reduces shareholder value.

A significant proportion of executive remuneration should be related to performance targets (both individual and corporate), and should be reviewed regularly. Non-performance or reporting on under-performance should not be rewarded. Performance targets should generally be disclosed in the Remuneration Report (unless there are compelling commercial reasons for confidentiality) and should be structured as a sliding scale rather than as a single performance target. Sustained improvements in financial performance can be encouraged through the use of longer term performance measurement periods.

3. Accountability and Audit Process

The audit process is critical to verifying the financial performance of a company, and to ensuring that management has effective internal control and financial reporting systems. Independent and effective external auditors are necessary for good corporate governance. Auditor independence may be impaired if the same audit firm has audited the company for a long time, or if the auditor firm earns more fees from non-audit services than from audit services.

Whilst there is no limit on the length of an auditors' appointment, there is a consensus among investors that periodic tendering (annually) of the audit service helps to maintain auditor objectivity. Companies are therefore encouraged to consider submitting the audit function to periodic tender and disclose their policy on this matter, including when the audit was last subject to tender.

The Institute of Chartered Accountants in England and Wales (ICAEW) recommends the internal rotation of audit engagement partners within an audit firm every five years for listed companies (ten years for non-listed companies). The Combined Code recommends the formation of an audit committee made up of independent non-executive directors, which should be responsible for reviewing and monitoring the work of the auditors and making recommendations to the board on the appointment, reappointment or removal of the auditors. Transparency helps to facilitate good auditing processes: audit fees should be clear and new non-auditing work should be put to tender rather than being bundled with audit services.

The London Borough of Lambeth Pension Fund encourages improved disclosure on the auditor reselection decision and the disclosure of any contractual obligations to appoint audit firms, in the interests of making the criteria used for auditor selection and evaluation as explicit as possible.

4. Capital Structure and Shareholder Rights

Existing shareholders collectively own the company and have a right to maintain their interest without excessive dilution. New share issues should be limited, and should occur as a part of corporate strategy in the interests of long-term performance. Companies should only repurchase shares in the market when it is commercially advantageous to do so, and with shareholder approval. Share buybacks should generally not exceed more than 10% of issued ordinary share capital and any share buyback needs to be subject to a transparent stress test that shows the company can operate on a reduced capital base and afford the cash outflow.

5. Reporting

The Board should establish formal and transparent arrangements for assessing financial and other reporting, risk management and internal control procedures. The Board's statement of internal controls should provide shareholders with a clear understanding of the company's internal control and risk management processes. Unless it provides an adequate justification otherwise, the Board's statement at a minimum should include:

- a description of how risk is managed on an on-going basis;
- an acknowledgment of Board responsibility for internal control and risk management;
- description of the review procedure for the processes;
- and a disclosure of any material joint ventures or associates not covered in the statement.

6. Responsible Investment

The Committee believe that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Fund's beneficiaries and aligned with fiduciary duty.

The Committee believe that environmental social and corporate governance ("ESG") and ethical issues can affect the performance of investment portfolios and should therefore be considered as part of the Fund's investment process.

The Committee have given their investment managers full discretion when evaluating ESG and ethical issues and in exercising rights and stewardship obligations relating to the Fund's investments taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Committee encourage their managers who are regulated in the UK to comply with the UK Stewardship Code. The Committee monitor its UK regulated managers' adherence to the UK Stewardship Code on a periodic basis.

The Fund's investment managers exercise voting rights and undertake engagement (collaborative or other) in accordance with their own corporate governance policy including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Committee.

In particular, where the manager believes that these issues will impact on performance or risk, the manager will be expected to take them into account in their decision making. The Committee reviews these policies through a review of stewardship compliance. The Committee will, where it is deemed necessary, engage the managers in discussion on their policies. It will however be made clear to the managers that any decisions taken by the managers should be in the best long terms financial interest of the Fund and its members. For pooled mandates, the Committee will take into account the policies of the managers at the time of selection.

Reporting on voting and engagement activities should be provided to the Committee by the managers on a regular basis.

The Fund is a member of the Local Authority Pension Fund Forum (currently it actively participates), a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

UK Stewardship Code

The Financial Reporting Council (FRC) first published the UK Stewardship Code in 2010, and revised it in 2012. The Code aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Since December 2010 all UK-authorised Asset Managers are required by the Financial Conduct Authority to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model.

The Stewardship Code has seven principles, and the ISS statutory guidance requires that administering authorities become signatories to the Code, and state how they implement the principles on a “comply or explain” basis.

The London Borough of Lambeth as administering authority for the Lambeth Pension Fund is not currently a signatory to the Stewardship Code. However, the Fund attempts to follow the principles, and this is explained below where appropriate, and plans to become a signatory in time.

The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

For reference the seven principles of the Stewardship Code are that institutional investors should:

1. **Publicly disclose their policy on how they will discharge their stewardship responsibilities.**

   The Fund’s policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF). The Lambeth Fund uses membership of the LAPFF to keep informed of potential issues of concern at individual companies and across the market, but delegates day to day responsibility for monitoring and intervening in companies to asset managers where applicable.

2. **Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.**

   The stewardship code assumes that conflicts of interest will arise from time to time. The London Borough of Lambeth’s Constitution sets out policies for personal and prejudicial interests. Any conflict of interest would be dealt with in accordance with the Council’s Constitution.

3. **Monitor their investee companies.**

   Day to day responsibility for managing the Fund’s equity holdings is delegated to the appointed asset managers, and the Fund expects them to monitor companies, intervene where necessary, and report back on activity undertaken. Asset Managers report to the

Pensions Committee and meet with officers regularly to discuss activity. Over time this will pass to the London CIV.

The Lambeth Fund uses membership of the LAPFF to keep informed of potential issues of concern at individual companies and across the market, and regular reports are received from the LAPFF. Officers attend meetings of the LAPFF at least annually to keep up to date with the forum's activities.

4. Establish clear guidelines on when and how they will escalate their stewardship activities.

If a matter is considered to affect shareholder value, the concern will be referred to the LAPFF. In addition, where a governance matter dictates that a resolution merits a dissent vote in accordance with the Fund's Voting Policy, the resolution will be voted against.

5. Be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund seeks to achieve this through membership of the LAPFF, which engages with other companies over environmental, social and governance issues on behalf of its members.

LAPFF coordinates collaborative engagement with companies, regulators and policies. LAPFF periodically issue voting alerts, which are analysed with regard to the Fund's own engagement policy. The decision to participate in such collective decisions is made on a case by case basis.

6. Have a clear policy on voting and disclosure of voting activity.

The Lambeth Fund has a formally agreed voting policy which is reviewed and revised from time to time. The fund exercises all votes attaching to its UK equity holdings, and seeks to vote where practical in overseas markets. This includes consideration of company explanations of compliance with the Corporate Governance Code. Votes are exercised in accordance with the Fund's Voting Policy; however it is possible for Officers to override the vote to support the actions of the LAPFF. Real Time reports are available detailing how votes have been cast.

7. Report periodically on their stewardship and voting activities.

The Fund discloses voting data periodically, but plans to formally make statistics available to the Committee annually in future. In addition, the Fund intends to report annually on stewardship activity through a specific voting and engagement section in the report and accounts. This will include both fund specific information including engagement with companies, and details of activity undertaken through the Local Authority Pension Fund Forum.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

In addition the Fund:

(a) is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners
(b) is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners
(c) gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest
(d) joins wider lobbying activities where appropriate opportunities arise.

Attached in the Appendix is the London CIV's draft Stewardship Code Statement of Compliance.

Contact

The Pension Fund Team
London Borough of Lambeth
9th Floor, Phoenix House
10 Wandsworth Road
Vauxhall
SW8 2LL

London Borough of Lambeth

Administering Authority for the London Borough of Lambeth Pension Fund

Investment Strategy Statement

Appendices

A. Main Actuarial Assumptions as at 31 March 2016

	% per annum Nominal	% per annum Real
Discount Rate - Gilt-Based - Funding Basis (Assumed to be 1.6% above the yield on fixed interest Government bonds)	2.2% 3.8%	0.1% 1.7%
Increases in pay (excl. increments)	2.6%	0.5%
CPI Inflation	**2.1%**	**-**

B. Liability Mix

Liabilities	**% of Total Liabilities**
Employee members	23.9
Deferred pensioners	29.6
Pensioners	46.5
Total liabilities	100.0
Deficit	£286m
Total fund (at actuarial value)	£1,428m

C. Investment Managers and Benchmarks (as at 31 March 2016)

Mandate	Manager	Portfolio Benchmark	Performance Target %	Fund Benchmark Allocation
Global Equity	London CIV (Baillie Gifford)	MSCI AC World Index	2% - 3% p.a. (gross of fees)	13.5
Global Equity	MFS	MSCI World (NDR) Index	+2% p.a. (gross of fees)	13.5
UK Equity	Majedie	FTSE All-Share Index	+2% p.a. (net of fees)	11.0
Hedge Funds (Fund of Funds)	PAAMCO	3 Month Sterling LIBOR	+5% p.a. (net of fees)	7.0
Property	Invesco	3 Month Sterling LIBOR	Absolute return of 8%-12% p.a. (net of fees)	12.0
Property	RREEF	IPD Property Index	+0.0	0
Diversified Growth	Standard Life	6 Month Sterling LIBOR	+5% p.a. (gross of fees)	4.0
Diversified Growth	AVIVA	6 months Sterling LIBOR	Cash + 5% p.a. (gross of fees)	4.0
Private Equity	Adam Street	Thomson Reuters Private Equity Fund Performance Survey	3% - 5% p.a. (gross of fees)	5.0
Bonds	Insight	Markit iBoxx Sterling Non-Gilts Index	+1% p.a. (gross of fees)	30.0

D. Investment Manager Fees

Mandate	Manager	Portfolio Benchmark
Insight	Bonds	0.17% p.a.
MFS	Global Equity	0.65% p.a. on the first £25.0m 0.50% p.a. on the next £25.0m 0.45% p.a. on the next £50.0m 0.40% p.a. thereafter
Majedie	UK Equity	0.70% p.a. Subject to a minimum fee of £40,000 p.a.
London CIV (Baillie Gifford)	Global Equity	0.65% p.a. on the first £30.0m 0.50% p.a. on the next £30.0m 0.35% p.a. thereafter
Invesco	Property	0.75% p.a. Plus performance related fee of 20% of value added over the benchmark
PAAMCO	Hedge Funds (Fund of Funds)	1.00% p.a.
Standard Life	Diversified Growth	0.70% p.a.
Aviva	Diversified Growth	0.67%
RREEF	Property	0.75% pa (currently no fee charged)

E. Stock lending and Custodian

Stock lending is only permitted subject to specific approval by the Committee.

The Fund's custodian, State Street, is responsible for the settlement of all investment transactions, collection of income, tax reclaims, exercising corporate administration, cash management and accounting information and reconciliation with Pension Fund Managers valuations.

F. London CIV Draft Stewardship Code Statement of Compliance

Attached in separate document.