

Committee	Pensions Committee
Officer Reporting	Pete Carpenter - Finance Babatunde Adekoya - Finance
Papers with this report	<ul style="list-style-type: none">Investment Strategy Statement

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. Note and Approve the Draft Investment Strategy Statement

SUMMARY

This report provides details of the Investment Strategy Statement, in response to the outcomes of the triennial valuation.

INFORMATION

DRAFT INVESTMENT STRATEGY STATEMENT

The triennial valuation results and Funding Strategy Statement were presented to the Committee today.

In keeping with the LGPS (Management and Investment of Funds) Regulations, this sets the backdrop for the review of the Investment Strategy Statement.

Work began on an initial review of the Pension Fund Investment Strategy and potential options were presented to Committee on the 24 September 2025. At the meeting, Isio presented initial illustrations of alternative strategic asset allocations for the Fund, ahead of a full investment strategy review in Q4 2025. It reflected feedback from the July 2025 Committee training session, where members expressed a desire to:

- Target a slightly higher return
- Enhance ESG integration within the portfolio

Three illustrative portfolio options were proposed in comparison to current strategy; each aligned to a different strategic priority:

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- Option 1 has similar risk profile to current strategy with slightly higher returns and increased VAR (Value at risk).
- Option 2 introduces 8% Private Equity and increases Private Credit to 10%. Highest expected returns and highest VAR.
- Option 3 introduces 5% Natural Capital and 5% UK Residential Housing for ESG impact. Marginally higher returns and lowest VAR.

An investment training session was organised on 17 November 2025 for Pensions Committee, Pensions Board and Officers, to review for the suitability against the long-term objectives of the current strategy when contrasted against the impact of the “Fit For The Future” legislation. The training session also considered strategy implementation, focusing on pooling, the composition of the equity portfolio and ESG factors, alongside further implementation considerations.

A further meeting was held on 28 November 2025 where further discussions took place between Pension Committee members, officers and Isio. This meeting specifically focused on the three options of strategic asset allocation with expected returns, Prudency and VAR (Value at Risk) all highlighted to assist Pension Committee members with understanding the best option that will serve the strategic investment needs of the Fund going forward.

At the 9 December 2025 Pensions Committee meeting the Committee analysed the three proposed options. Option 3 was recommended by Isio, the fund’s investment consultant, and after deliberation, was agreed by the committee.

The attached revised ISS is set before Committee for approval. Key changes to note include:

- A number of changes to reflect the Draft ISS guidance issued in December 2025.
- Changes to reflect that LCIV will be managing all assets from 1st April 2026.
- Introduction of UK Residential Housing exposure (via the LCIV UK Housing Fund) for ESG impact and inflation linkage.
- Increase in allocations to private equity (+8%) and private credit (+2%) to capture the illiquidity premium.
- Adjustment to the equity mix: reduce passive exposure, increase active mandates for diversification and ESG.
- Consider currency hedging (25%–50%) given USD volatility.
- Revised control ranges to reflect that some asset classes, notably illiquid asset such as Private Equity and Property, are outside the current ranges and will take some time to bring into range.

The changes are forecast to increase the modelled investment return from 9.1% to 9.4% but with a small increase in the Value at Risk (VAR) from £502m to £517m.

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This ISS had been circulated to LCIV for comment and feedback is expected shortly.

FINANCIAL IMPLICATIONS

Financial implications are contained within the body of the report.

LEGAL IMPLICATIONS

There are no legal implications in the report.