



**Buckinghamshire
Council**

Buckinghamshire Pension Fund

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Investment Strategy Statement

September 2022



1. Introduction

The Buckinghamshire Pension Fund (the Fund) is administered by Buckinghamshire Council (the Administering Authority) which is legally responsible for the Fund. In that role the Administering Authority has responsibility to ensure the proper management of the Fund.

The Administering Authority delegates its responsibility for administering the Fund to the Pension Fund Committee (the Committee), which is its formal decision making body. The Committee is responsible for setting strategic asset allocation and monitoring investment performance, having taken advice from professional advisers. Operational implementation of the investment strategy is delegated to Officers.

In addition, the Buckinghamshire Pension Board has an oversight and scrutiny role to ensure good governance through monitoring of the Fund's performance, activity of the Committee and adherence to statutory duties.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations) require administering authorities to formulate and to publish an Investment Strategy Statement, in accordance with guidance issued from time to time by the Secretary of State.

This Investment Strategy Statement ("Statement") for the Fund sets out the principles that will guide the Committee when making decisions about the investment of the Fund's assets. It also sets out the framework for investing the Fund's assets which is consistent with the funding strategy, as set out in the Funding Strategy Statement.

The Statement is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund's investments are managed. This Statement will be reviewed by the Committee at least triennially or more frequently should any significant change occur.

2. Investment objectives

The primary objective of the Fund is to be efficient, reduce costs and minimise contributions for employers, in order to meet the cost of pension benefits as required by statute. A related objective is to minimise the volatility of employer contribution rates as investment returns vary from year to year.

The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective, subject to an appropriate level of risk (implicit in the target) and liquidity. The investment strategy will be reviewed at least every three years to ensure it remains appropriate in light of market conditions and the above objectives.

It is the Administering Authority's current policy that external fund managers are employed to administer the Fund's assets. Cash balances arising from the receipt of employer and employee contributions are invested in accordance with the agreement between the Administering Authority and the Committee.

3. Investment strategy and the process for ensuring sustainability of investments

The rate of return assumed within the actuarial valuation together with the long term nature of the liabilities means the Fund allocates a significant weighting to asset classes with higher expected returns. Such asset classes may introduce volatility in the short term but are ultimately expected to generate higher returns in the long term. The investment strategy considers the expected risk-return profile of each asset class.

A management agreement is in place for each fund manager, setting out the relevant benchmark, performance target, asset allocation ranges and any statutory restrictions or other restrictions determined by the Committee (where possible).

The Fund's investment strategy, along with an overview of the role each asset class plays, is set out in the tables below:

Asset class	Allocation (%)	Rebalancing Ranges (%)	Role within the strategy
Equities	50.0	35.0 – 55.0	
Passive Developed Global	16.5	9.5 – 20.0	Generate returns through capital gains and income through exposure to the shares of domestic and overseas companies, indirect links to inflation. The Fund invests in a range of actively and passively managed strategies with different investment styles to gain diversified exposure to global equity markets, using active managers where appropriate and in the expectation that these will add value.
Active Developed Global	16.5	9.5 – 20.0	
Low Volatility	7.0	5.5 – 8.5	
Emerging Markets	5.0	4.0 – 6.0	
Small Cap	5.0	4.0 – 6.0	
Alternatives	26.5	21.5 – 45.0	
Multi-Asset Credit	10.0	8.0 – 12.0	To deliver returns in excess of cash whilst providing diversification benefits to the overall investment strategy. Returns are expected to be driven by both market allocation and active management across a range of credit opportunities (including high yield corporate bonds, bank loans, emerging market debt and investment grade corporate bonds) with modest sensitivity to interest rates
Core Property	6.0	3.0 – 8.0	Generate returns through income and capital appreciation via investment in UK property markets, whilst providing some diversification away from equities and bonds.
Private Equity	4.0	n/a	Generate returns through privately held assets that are not quoted on a stock market and capture the illiquidity premium available to long-term investors. Diversification of risk and return sources away from more traditional assets.
Private Debt	2.0	n/a	Generate returns through privately negotiated debt used to finance privately owned companies that are not quoted on a stock market. Captures the illiquidity premium available to long-term investors and provides strong capital protection and a high recovery

Asset class	Allocation (%)	Rebalancing Ranges (%)	Role within the strategy
			ratio. Diversification of risk and return sources away from more traditional assets.
Infrastructure	4.5	n/a	Generate returns through capital growth and income and provide additional diversification and low correlation to traditional asset classes.
Bonds	23.5	15.0 – 28.5	
Index-Linked Gilts	10.0	8.0 – 12.0	Provide direct protection relative to inflation linked liabilities.
UK Corporate Bonds	13.5	8.0 – 16.5	Expected to generate returns above those available on domestic sovereign bonds (gilts) with only marginal increase in risk, whilst providing diversification relative to other asset classes.
Cash	-	0.0 – 2.0	Cash balances may be held in order to meet cash flow requirements and fund private market capital calls.
Total	100.0		

External investment managers are appointed on the Fund's behalf to deliver the investment strategy. This includes selecting active managers for asset classes where manager skill is expected to enhance the market return and manage risk, to a greater or lesser extent, or where passive options are not available. Passive approaches aim to deliver the market return by replicating the index in a cost and implementation efficient manner.

Asset allocation varies over time through the impact of market movements and cash flows. The asset allocation is monitored on a quarterly basis relative to the rebalancing ranges outlined above. Further information on the Committee's rebalancing policy is set out in section 4 of this document.

The Committee is responsible for the Fund's asset allocation, which is determined via strategy reviews undertaken as part of the actuarial valuation process. The last review of the investment strategy was in Q1 2020 and was both qualitative and quantitative in nature, and was undertaken by the Committee in conjunction with Officers and independent advisers. The review considered:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- An analysis of the order of magnitude of the various risks facing the Fund
- The desire for diversification across asset class, region, sector, and type of security.

Following the latest investment strategy review the Committee agreed a Long Term Target investment strategy that will be implemented over time. This strategy includes greater allocations to private market assets and consequent decreases in the existing allocations to equities, hedge funds and corporate bonds. The investment cycle for private market assets means that commitments are drawn down over an extended timeframe. As a result, progress in reaching the Long Term Target allocation will depend upon Brunel identifying suitable managers, and on the pace of the subsequent draw down of capital by the managers.

4. Rebalancing policy

The Committee has adopted a formal rebalancing policy, whereby Officers will review the Fund's asset allocation against the rebalancing ranges outlined in section 3 on a quarterly basis, as at the relevant quarter end. If any allocations have breached their respective ranges, Officers will rebalance the allocations

by switching assets from/to the most overweight/underweight portfolios. Rebalancing is only made between the Fund's liquid assets i.e. those that have rebalancing ranges.

Unless there is good reason otherwise, such rebalancing will be undertaken to bring the over or underweight asset class/classes back to approximately the mid-point between the target allocation and the current position.

Before any rebalancing action is undertaken, Officers will consult with the Chairman and Vice Chairman of the Committee, as well as the Fund's appointed investment consultant and independent advisor, regarding the proposed action.

This policy and the rebalancing ranges are reviewed annually by the Committee, as the asset allocation is expected to move towards the agreed long-term target strategy over time. Due to their illiquid nature, rebalancing ranges are not set for individual private market asset classes (specifically private equity, private debt and infrastructure). However the Committee regularly conducts commitment planning exercises to seek to achieve and broadly maintain the strategic allocations to each asset class.

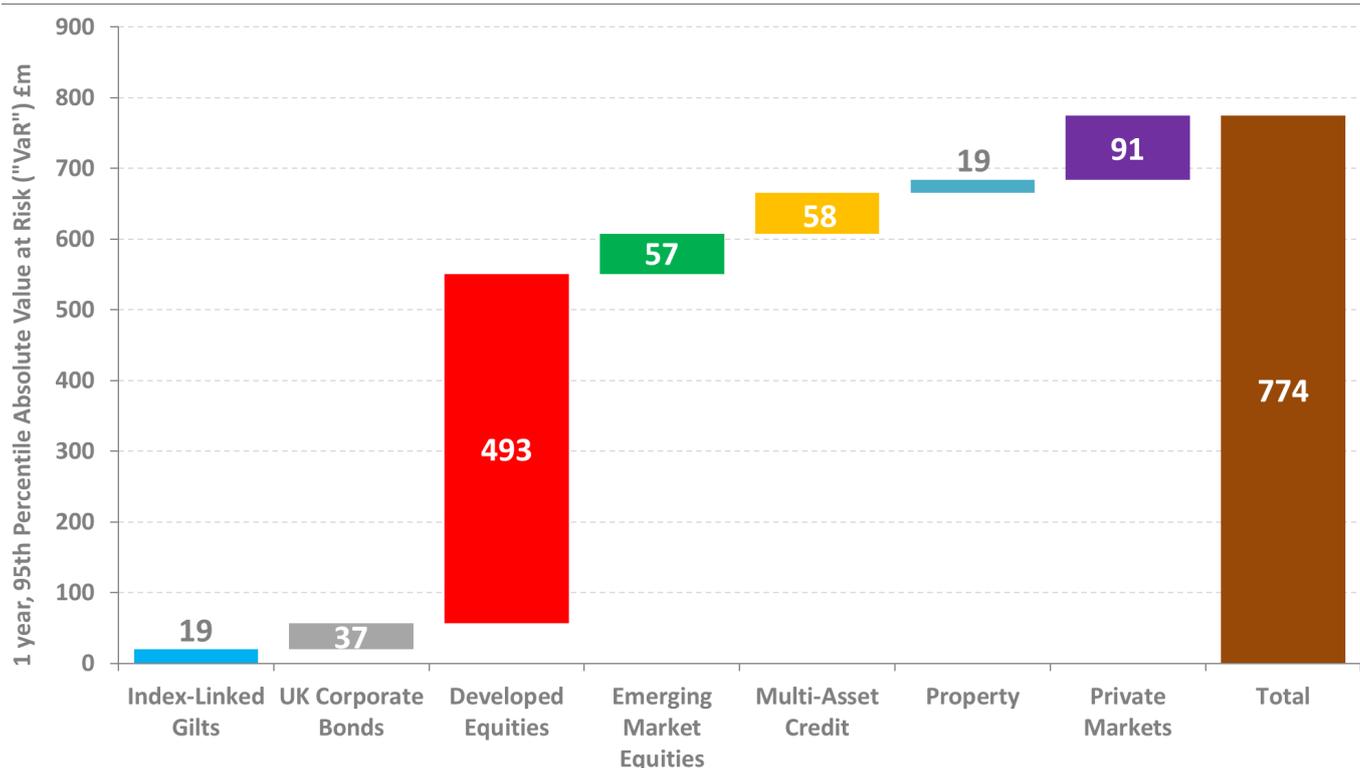
5. Risk measurement and management

The risk and return profile of the assets will be measured against the strategic objective and be considered in the Fund's capacity as a long term investor. The main risk to the Fund is the risk that the Fund's assets do not produce the returns needed to meet the liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates, and their affordability.

The Committee recognises that, whilst investing in higher risk assets increases potential returns over the long-term, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, as well as producing more short-term volatility in the funding position. The Fund's diverse range of asset classes and approaches is designed to help achieve returns in a variety of market environments. By holding a range of assets across the portfolio that are not perfectly correlated, the Fund expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns.

The graph below provides an indication of the main sources of investment risk within the investment strategy outlined in the table in section 3 of this document (estimated by the Fund's investment consultant) that contribute to the volatility of the Fund's funding position, as measured by a one year "value at risk" measure at the 5% level. In other words, if we consider a downside scenario which has a 1 in 20 chance of occurring, this would be the minimum impact on the Fund's assets relative to our "best estimate" of what the asset value would be in a year's time.

1 year 95th percentile Value at Risk



The following risks are also considered by the Committee:

(i) Inflation Risk

The Fund's liabilities are impacted by inflation both explicitly and implicitly. The Fund will seek to invest in a range of assets that provide returns in excess of inflation and in some cases provide an inflation-linked income, subject to a tolerable level of volatility. The Committee acknowledges that inflation risk relating to the Fund's liabilities is managed by the underlying investment managers through a combination of strategies, such as diversification, and investing in assets that move in line with inflation, such as index-linked gilts and infrastructure.

(ii) Environmental, Social and Corporate Governance (ESG) Risk

The Committee believes that ESG (including climate change) risks should be taken into account on an ongoing basis. ESG considerations are an integral part of the Fund's strategy and objective of being a long term investor. Further details on the Committee's social, environmental and corporate governance policy can be found further on in this Statement.

(iii) Governance Risk

This is the risk that Committee members do not have sufficient expertise to evaluate and challenge the advice they receive, particularly given the potential for turnover within the Committee. The Fund recognises the importance of maintaining an appropriate level of knowledge across the Committee. It has taken steps to ensure that Committee members possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duties by providing appropriate training as and when required. Officers ensure the Committee receives expert advice to support strategic and implementation decisions. In addition, the Committee maintains a Risk Register that is regularly updated and monitored by the Committee.

(iv) Foreign Exchange Rate Risk

The Fund is subject to foreign exchange rate risk due to the Fund's investment in sterling priced portfolios which hold underlying investments denominated in foreign currency. There is no currency hedging in place at the strategic level.

(v) Liquidity Risk

The Committee recognises the inherent risk of holding illiquid assets that cannot be easily converted into cash. However, given the long-term investment horizon of the Fund it is appropriate to accept liquidity risk where such assets are considered to deliver attractive risk-adjusted returns within the context of the overall strategy. The majority of the Fund's assets are held in liquid instruments and realisable at short-notice.

(vi) Cashflow Risk

The Fund is becoming more mature and is expected to become cashflow negative over time, meaning that income and disinvestments will be required from the Fund's investments to meet benefit payments. Monitoring cash flow is critical to the internal monitoring and rebalancing process and has been considered when setting investment strategy.

(vii) Valuation Risk

The actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved if the assets do not deliver as expected. This risk is reduced by the diversified investment strategy the Fund employs, through the alignment of the investment strategy with funding requirements through regular reviews, and through regular monitoring.

(viii) Longevity Risk

This is the risk that the members of the Fund live longer than assumed in the actuarial valuation model. This risk is captured within the funding strategy which is monitored by the Committee. Any increase in longevity will only be realised over the long term.

(ix) Employer Covenant Risk

There is a risk that employers within the Fund withdraw or lack the financial capacity to make good their outstanding liabilities. The financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

(x) Regulatory and Political Risk

Across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to political uncertainty. These risks are managed by diversifying across markets and are monitored by reviewing the investment strategy and specific investment mandates.

(xi) Asset Pooling Risk

The risk that the expected benefits and cost savings do not emerge over the long-term, and/or unexpected costs or losses arise from the transition of assets. Performance, service delivery, costs and savings are monitored on an ongoing basis, whilst the service agreement sets out the duties and responsibilities of the pool and the rights of the Fund as a client. Details of the Fund's pooling arrangements are set out in section 6 of this document.

(xii) Custody Risk

The risk of losing economic rights to Fund assets, when held in custody or when being traded. Such risk is mitigated by the use of a global custodian with negotiated service level agreement and internal reconciliation of accounting records.

6. Approach to asset pooling

The Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (Brunel). The Fund, through the Committee, retains the responsibility for setting the detailed strategic asset allocation for the Fund and allocating investment assets to the portfolios provided by Brunel.

Brunel is a company wholly owned by the ten Administering Authorities (in equal shares) that participate in the pool. The company received authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme in March 2018. It is responsible for implementing the detailed strategic asset allocations of the participating funds by investing funds' assets within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio. Brunel creates collective investment vehicles for quoted assets such as equities and bonds; for private market investments it creates and manages an investment programme with a defined investment cycle for each asset class.

The Fund is a client of Brunel and as a client has the right to expect certain standards and quality of service. A detailed service agreement is in place which sets out the duties and responsibilities of Brunel, and the rights of the Fund as a client. It includes a duty of care of Brunel to act in its clients' interests. The pool had established governance arrangements, and the Brunel Oversight Board has been established. This is comprised of representatives from each of the Administering Authorities. It was set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that Brunel delivers the services required to achieve investment pooling. It therefore has a monitoring and oversight function. As per the terms of reference, it is able to consider relevant matters on behalf of the Administering Authorities, but does not have delegated powers to take decisions requiring shareholder approval. These are remitted back to each Administering Authority individually. As shareholders of Brunel, the Administering Authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

The Brunel Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but also draws on Administering Authorities finance and legal officers from time to time. It has a primary role in managing the relationship with Brunel, reviewing the implementation of pooling by Brunel, and provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Brunel Oversight Board to fulfil its monitoring and oversight function.

The arrangements for asset pooling for the Brunel pool were formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports are made to Government on progress towards the pooling of investment assets.

Investment assets have been, and will continue to be, transitioned across from the Fund's existing investment managers to the portfolios managed by Brunel over time. Until such time as transitions take place, the Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with Brunel where appropriate.

Over time, it is envisaged that all of the Fund's assets will be invested through Brunel portfolios. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the Brunel portfolios. These assets will be managed in partnership with Brunel until such time as they are liquidated, and capital is returned.

7. Social, environmental, and corporate governance policy

The Committee has a fiduciary duty to act in the best financial interests of the Fund's members and seek to obtain the best financial return that it can for members against a suitable degree of risk. This is a fundamental principle; however, the Fund is also mindful of its responsibilities as a long term shareholder.

The Committee believes that environmental, social, and corporate governance ("ESG") factors, including climate change, will have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Committee recognises that long term sustainability issues present risks and opportunities that increasingly require explicit consideration when investing the Fund's assets.

Brunel has published its Responsible Investment Policy Statement and has identified seven priority themes as part of its integrated Responsible Investment process. These themes span a wide range of ESG issues and are informed by Brunel's investment beliefs, its clients' policies and priorities, together with stakeholder views, regulatory and statutory guidance and alignment with best practice. The themes are set out below:

- Climate change
- UK policy framework
- Diversity & Inclusion
- Human capital
- Cost and tax transparency
- Cyber
- Supply chain management

The Committee is supportive of Brunel's Responsible Investment Policy, as well as their priority themes for Responsible Investment and stewardship activities.

The Committee will ensure that appropriate governance resources are available for developing and implementing ESG and Climate Change related governance policies. For example, the Committee intends to commission climate scenario analysis in order to assess the Fund's exposure to physical damages and transition risk under various warming scenarios to assist the Committee when setting investment strategy.

The Committee has already committed part of the Fund's assets to infrastructure portfolios that invest in renewable energy, technologies and infrastructure. Within the first portfolio c.46% of commitments have been invested in such assets, whilst half of the second portfolio was committed to a dedicated renewables fund. Renewable investments in the third portfolio, which aims to allocate 30-60% to such investments, include low carbon and energy transition enabling investments across various sectors.

The Committee does not consider a top-down approach to divestment to be an appropriate strategy for reducing climate and carbon risk and contributing towards reducing carbon emissions. Instead, the Committee believes that decarbonising the Fund's portfolio over time by reducing its exposure to carbon intensive companies and assets, and seeking to influence the behaviour of companies through engagement, will have a more beneficial impact.

The vast majority of the Fund's assets are managed by Brunel. Brunel's Responsible Investment Policy Statement and Climate Change Policy clearly articulate its commitment to be responsible investors, and as such recognises that ESG considerations and climate change are part of the processes in the selection, non-selection, retention and realisation of assets for the Fund. The Committee expects Brunel to follow good practice and use its influence as a major institutional investor and long-term steward of capital to promote good practice in the investee companies and markets to which the Fund is exposed. The Committee notes that Brunel is a signatory to the UK Stewardship Code 2020. During 2021, Brunel engaged with a number of investee companies on a wide variety of ESG-related themes, including corporate conduct, culture & ethics, human capital management, respect of human rights, board effectiveness and executive remuneration.

Brunel's intention is to align its investments with the targets set under the Paris Agreement (which aims to limit climate change to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels) in relation to greenhouse gas emissions and carbon neutrality. Brunel have committed to a 50% reduction in emissions by 2030 (relative to emissions reported as at 31 December 2019), and to net zero by 2050. The Committee is supportive of Brunel's ambitions.

The Committee is also supportive of the Administering Authority's commitment to tackling climate change issues. As part of its Climate Change and Air Quality Strategy, the Administering Authority will work alongside the government to achieve net-zero for carbon emissions for Buckinghamshire as a whole by 2050. In addition, the Administering Authority will reduce its own carbon emissions by 75% by 2030, and to net zero by no later than 2050. The Committee is supportive of the Administering Authority's ambitions.

Each portfolio, in every asset class, under Brunel, explicitly includes responsible investment which includes an assessment of how social, environmental and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives.

One area of Brunel's focus will be on driving real and substantial change in how investment managers invest. If investment managers are not able to robustly and credibly explain their investment strategies and how they have integrated climate risk, Brunel will look to replace them with investment managers that do. If Brunel find that their investment managers' engagement with companies is ineffective (i.e. these efforts do not deliver real change in corporate strategies on climate change so that these companies are on a trajectory to be aligned with the transition to a 2°C or below economy), Brunel will consider whether they should remove certain investment managers and/or introduce specific exclusion criteria to be applied to companies. The Committee is supportive of Brunel's approach.

On an annual basis, Brunel produces carbon footprint analysis on behalf of the Committee to monitor the Fund's progress in reducing carbon emissions. Key carbon metrics, such as the weighted average carbon intensity of the aggregate portfolio, are measured and monitored against a custom benchmark. As at 31 December 2019, the Fund was c.12% less carbon intensive than the benchmark on a weighted average carbon intensity basis. By 31 December 2020 this had improved to c.15%, driven by a c.18% reduction in the carbon intensity of the Fund (compared to a c.16% reduction in the carbon intensity of the benchmark). By 31 December 2021 this had further improved to c.32%, driven by a 9% reduction in the carbon intensity of the Fund over the year (compared to a 14% increase in the carbon intensity of the benchmark). All of the Brunel portfolios invested in by the Fund have lower levels of carbon intensity compared to their respective benchmarks, with the exception of the Brunel Sterling Corporate Bond Fund

and the Brunel Passive World Developed Equity Fund (which are broadly in line with their respective benchmarks).

The Committee will continue to develop its beliefs and approach to ESG integration and climate change, and its strategy for decarbonising the Fund's investment portfolio. The Committee will work with Brunel to ensure that these are implemented, noting that Brunel published a comprehensive Climate Change Policy in January 2020. This policy is being reviewed by Brunel in 2022, ahead of publishing an updated policy in 2023.

8. Policy of the exercise of rights (including voting rights) attaching to investments

Under the current arrangements, the exercising of rights, including voting rights, is delegated to the Fund's investment managers including Brunel. Brunel has a single set of voting guidelines for all assets under its management held in segregated accounts. In addition, Brunel will actively attend and vote at company meetings (AGM/ EGMs).

Further information can be found in Brunel's Stewardship Policy, which sets out Brunel's overall approach to stewardship, and Voting Guidelines, which sets out Brunel's voting principles across a range of themes and what it expects of companies, their boards, and their management. Brunel will publish its voting guidelines and provide online voting records on a quarterly basis.

Advice taken

In preparing this statement, the Committee has taken advice from Fund Officers, the Fund's appointed investment consultant, Mercer, and the Client Group at the Brunel Pension Partnership Ltd.