

CITY OF LONDON CORPORATION PENSION FUND

INVESTMENT STRATEGY STATEMENT

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and publish a statement of their investment strategy, taking into account guidance issued from time to time by the Secretary of State.

The City of London Corporation is the administering authority of the City of London Pension Fund (the 'Fund') and it has a duty to invest any fund monies that are not needed immediately to pay benefits from the Fund. The purpose of this Investment Strategy Statement (the 'ISS') is to document the principles, policies and beliefs by which the Corporation manages the Fund's investment assets.

The ISS has links with two other key strategic documents, namely:

- The Funding Strategy Statement (the 'FSS'), which sets out the main aims of the Fund and explains how employers' contribution rates are set to achieve those aims.
- The Governance Compliance Statement which sets out the structure of delegations of responsibilities for the Fund.

Both statements are incorporated into the Pension Fund Annual Report.

In formulating this statement the Corporation has consulted with, and received advice from, the Fund's investment consultant, Mercer (the 'Investment Consultant'). The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy.

2. Scope

Regulation 7(2) states that the following matters must be addressed within the ISS:

- (a) a requirement to invest fund 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 assessed and managed;
- (d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) the authority's policy on how social, environmental and 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 the rights (including voting rights) attaching to investments.

These requirements are dealt with in turn below, following an overview of the Fund's governance arrangements and the links between the ISS and the Funding Strategy Statement.

3. Governance

The City of London Corporation's Court of Common Council has delegated all matters in relation to the management of the Fund to the Pensions Committee (hereafter, the "Committee"). The main areas of investment responsibility include:

- determination of strategic asset allocation;
- determination of portfolio structure; and
- on-going monitoring and evaluation of the investment arrangements.

The Committee consists of up to 7 Members elected by the Court of Common Council, at least one of whom shall have fewer than five years' service on the Court at the time of their appointment and up to three independent members co-opted to the Committee on the advice of the Chamberlain, with voting rights.

Members of the Committee recognise that they have a duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are considered to be the Fund's members and employers together with local taxpayers.

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

4. Link to the Funding Strategy Statement

The FSS aims to establish a clear and transparent strategy that will identify how participating employers' pension liabilities are best met going forward. To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Thus the main link between the FSS and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in this document.

5. Investment Objectives

The Fund's primary long term investment objective is to achieve and maintain a funding level at or close to 100% of the Fund's estimated liabilities; and in conjunction with the funding strategy, to minimise the cost and variability of cost to employers.

6. Regulation 7(2)(a) - Investment of fund money in a wide variety of investments

The administering authority is exposed to significant risks in discharging its duties. In particular, the Committee is conscious of the risk of failing to provide sufficient investment returns to achieve the targeted funding level and the risk of failing to maintain stable employer contributions by producing excessive volatility in investment returns.

The Committee recognises that diversification is essential to managing portfolio risks and makes use of a full range of investment opportunities. Assets are invested across different asset classes and distinct investment management styles are combined with the aim of

securing sufficient returns and reducing volatility. The Committee will also make use of illiquid investments (such as property, private equity and infrastructure), recognising that investors are expected to be rewarded over the long term (i.e. there is a liquidity premium).

The Committee regards its choice of strategic asset allocation as the decision that has most influence on the likelihood of achieving the investment objective. The Committee reviews its strategic asset allocation via periodic investment strategy reviews. In order to ensure that its asset allocation policy remains appropriate, reviews will normally take place every three years. However, if there is a significant change in capital markets, in the circumstances of the Fund or in governing legislation, then an earlier review may be conducted.

The Fund's appointed Investment Consultant supports the Committee in deciding on its asset allocation policy through the provision of professional advice. The Committee further considers the legality of all investments for compliance with the LGPS.

The Pensions Committee reviewed the Fund's investment strategy in 2023 following its 2022 actuarial valuation and agreed the target asset allocation strategy set out in the table below.

Asset Class	Position as at 31/03/2025 %	Strategic target %	Control range** %
Equities	49	45	30 – 60 (+/- 15)
UK Equities	9		
Global Equities	40		
Multi Asset	7	7	2 – 12 (+/- 5)
Multi Asset Credit	9	8	3 – 13 (+/- 5)
Property	8	10	5 – 15 (+/- 5)
Infrastructure #	10*	8	0 – 18 (+/- 10)
Renewable Infrastructure	1*	5	0 – 15 (+/- 10)
Private Equity	1*	2	0 – 7 (+/- 5)
Corporate Bonds	13	15	10 – 20 (+/- 5)
Cash (internal)	2	0	0 – 5
Total	100	100	

*This does not include outstanding commitments that represent approximately 4.6% of the total Fund value as at 31 March 2025.

In September 2024, the strategic asset allocation for Infrastructure was amended to include the allocation to Broad Private Markets, increasing the percentage for 3% to 8%.

**The Regulations also require the Committee to set out in this document the target percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. The control range indicates the maximum level to be held in each asset class. The actual asset allocation will be monitored on a regular basis and any movement outside of these ranges will trigger a discussion on whether rebalancing should be carried out.

Treasury Management Policy

In accordance with Regulation 6, the administering authority holds a separate bank account for the exclusive use of the Pension Fund. The Pension Fund does not have a strategic asset allocation to cash, and the bank account is used to hold sufficient fund monies to manage the operational requirements of the Pension Fund. In accordance with Regulation 6(2), the account is kept by Lloyds Bank, an authorised deposit taker under the Financial Services and Markets Act 2000.

The Committee monitors liquidity to ensure that sufficient cash is available at all times to meet the obligation to pay pension benefits as they fall due and to manage other operational requirements.

The Investment Committee of the City of London Corporation monitors the financial standing and creditworthiness of Lloyds Bank to ensure it continues to qualify as an authorised deposit taker.

Under Regulation 5(1) the administering authority must not borrow money excepted as provided in the Regulations. Regulation 5(2) provides for very specific and limited circumstances where the Fund is permitted borrow monies.

7. Regulation 7(2)(b) - Assessment of suitability of particular investments and types of investments

The Committee considers the suitability of investments in the context of its investment objectives and in relation to the funding strategy for the Fund's liabilities as calculated by the Fund Actuary.

When assessing suitability, the Committee will assess the expected return prospects for investments alongside their risk characteristics, liquidity and cost considerations. Responsible Investment issues and suitability of investment via the London Collective Investment Vehicle (LCIV) are also key factors taken into consideration. Furthermore, the Committee considers the contribution of investments towards overall portfolio performance.

In forming its views on the suitability of investments the Committee is supported by advice from the Fund's appointed Investment Consultant. The most recent investment strategy review utilised the following expectations for annualised returns and volatility which are based on the Investment Consultant's long-term capital market assumptions at the time of the most recent investment strategy review (31 March 2023):

Asset class	Arithmetic mean (% p.a.)	Multi-year standard deviation (% p.a.)
Fixed interest gilts (>15 years)	4.0	5.4
Index-linked gilts (>5 years)	3.5	8.6
Sterling non-gilts (all stocks)	5.2	5.7
Absolute return fixed income	5.9	10.7
Global equity	8.5	19.9
Conventional property	6.4	17.3
High lease value property	5.8	10.8
Multi asset funds (diversified growth funds)	7.3	12.6
Multi asset funds (multi asset credit)	7.0	11.9
Infrastructure unlisted equity	7.5	17.4
Private equity	8.1	25.4

The current strategic asset allocation target is expected to deliver an annualised return of 7.7% over the long term on a best estimates basis (there is no guarantee this will be achieved and is subject to change). The Committee judges that the current asset allocation strategy is compatible with the Fund's funding target.

The Committee also considers liquidity, and the suitability of particular investments in the context of the Fund's requirement to meet pension obligations as they fall due. The Fund remains open to new members and new accruals. Contributions are received from both active members and employing authorities. Active members contribute on a tiered system. Employing authorities' contributions are determined by advice from the Fund Actuary; based on the triennial valuation. The maturity profile is such that pension payments from the Fund now exceed contribution income paid into the Fund and investment income is required to meet the annual net cash shortfall from the Fund. At some stage there may be a requirement to realise assets in order to meet pension payments and the Fund Actuary keeps this position under review. The Fund's current strategic asset allocation provides sufficient liquidity to meet pension obligations as they fall due.

The asset allocation strategy is implemented via external fund managers with clear performance targets aligned to the Fund's requirements. The Committee believe the use of active management within the Fund will increase the likelihood that its objectives will be met. The Committee has appointed multiple investment managers in order to access appropriate specialisms and achieve diversification by both asset class and style. The Committee's current investment managers are set out in Appendix A (page 100).

The activities of each manager are governed through written contracts such as policy documents or Investment Management Agreements. This includes details on the portfolio performance objectives, past performance and risk limits, as well as information on permissible investments.

The Committee meets a minimum four times per year to review and monitor the ongoing suitability of the Fund's investments in the context of performance and developments in its investment environment. Each investment mandate has a performance benchmark against which performance is measured. The Committee also maintains both an asset allocation and an absolute return performance benchmark at Fund level to monitor the aggregate impact of investment performance and progress against the investment objectives. The Committee also receives annual funding updates from the Fund Actuary.

8. Regulation 7(2)(c) - Approach to risk, including the ways in which risks are to be assessed and managed

The Committee recognises that risk is an inherent feature of investment activity and it has identified several risks that may impact on the investment strategy and the Fund's overall funding level. Key risks are listed below alongside the measures taken to counter and mitigate those risks.

Risk	Mitigation
Asset-liability mismatch risk	A critically important risk is that assets fail to grow in line with the Fund's evolving liabilities. This risk is managed by periodic valuations of the Fund's liabilities and investment strategy reviews which include assessments of the outlook for its funding level and investment strategy. These exercises are mutually constitutive and are supported by appropriate professional advice from the Fund Actuary and the Investment Consultant.
Cash flow risk	The risk that the Fund fails to meet its pension obligations as they fall due is mitigated through the maintenance of adequate liquidity in the portfolio and the monitoring of cash flow requirements.
Active management risk	The risk that investment manager performance is inadequate is managed through establishing clear performance expectations (including allowances for tolerable deviations) against which actual performance is continually measured and monitored. Where performance deviates from expectations, the Committee acts quickly to seek to understand the causes and is decisive where it lacks conviction in a manager's ability to recover adequate performance. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that class for taking on active risk. Active risk is then diversified through the use of different investment managers and pooled funds.
Investment and concentration risk	The Fund is exposed to risk of being excessively concentrated within particular asset classes, sectors, regions, currency and investment styles. The Committee manages this risk through a diversified asset allocation strategy. Actual allocation against the strategic target is monitored on a continual basis and rebalancing within the portfolio is undertaken where excessive concentration becomes evident.
ESG risks	The Committee acknowledges that environmental, social and governance (ESG) factors pose material financial and non-financial risks to the Fund. The Committee's approach to ESG factors is set out in Section 10 below.

Currency risk	The Committee considers currency risk (the risk of fluctuations in foreign currency rates) as a risk which is difficult to predict. In light of this, and given that investment via pooled funds makes implementing a currency hedging programme operationally complex, the Committee does not hedge its currency exposure. As a long-term investor, the Committee can tolerate short term fluctuations in currency prices. Certain fund managers have been granted authority to hedge the currency risks attached to their investment portfolios when they consider this to be desirable.
Counterparty risk	The risk of a counterparty being unable to meeting contractual obligations is managed through appropriate due diligence at the selection stage and the ongoing monitoring of counterparty standing.
Custody risk	The Committee carries out appropriate due diligence when selecting a global custodian and monitors the incumbent's creditworthiness. As the Fund's assets are increasingly invested through pooled vehicles this function largely resides with individual investment managers.
Inflation risk	The Fund's liabilities are impacted by changes in inflation. A significant proportion of the strategic asset allocation is therefore targeted towards asset classes which provide indirect protection against inflation (such as equities, property and infrastructure).
Transition risks	When transitioning assets, the Fund is subject to various risks including out-of-market exposure, as well as operational and trade execution risks. The Committee will assess transition risks whenever it undertakes material portfolio changes and will enlist professional transition management expertise whenever necessary.

The Committee is aware that these, investment-related, risks are not the only risks that may impact on the funding level and stability of employer contributions. There are significant demographic and regulatory risks that could impact on the size and profile of the Fund's liabilities, which are set out in more detail in the Funding Strategy Statement.

The Committee maintains a key risk register to maintain oversight of the most significant risk it faces and to identify emerging key risks. The risk register is reviewed at least twice per year and more frequently if there is a material change in the risk environment between reviews.

The identification and management of risks is supported by the provision of professional advice from the Investment Consultant.

9. Regulation 7(2)(d) - Approach to Pooling Investments, including the use of collective investment vehicles and shared service

Under the Government's pooling agenda, administering authorities must pool their assets in order to deliver benefits of scale and collaboration including reduced investment costs and other superior investment outcomes.

The City of London Corporation, along with 31 other London local authorities, is part of the London Collective Investment Vehicle (CIV). The London CIV is operational and has created a platform of sub-funds which span several asset classes. The London CIV has an ongoing process of developing its sub-fund offering to meet the needs of member Funds.

The London CIV is an FCA Regulated fund manager that represents the pooled investments of London Local Authority Pension Funds (including the City of London Corporation Pension Fund) who are the sole shareholders. Executive operations are carried out by the LCIV Company Board which has a duty to act in the best interests of the shareholders. The Chairman of the City of London Corporation's Pension's Committee is a member of the Shareholder Committee which is responsible for scrutinising the actions of the Board amongst other matters. The London CIV also holds a twice-yearly AGM where shareholders can exercise their shareholder powers, review the annual budget and hold the London CIV Company Board to account.

As at 31 March 2025, circa 60% of the Fund's assets including commitments were invested via the London CIV. The Committee will look to transition assets to the London CIV in line with the regulations and the 'Fit for the Future' consultation. Noting that at the time of writing the regulations have yet to be confirmed and written into law.

The Fund has investments in infrastructure, private equity and property valued as at 31 March 2025 at £75m, £21m and £118m, respectively (excluding outstanding commitments). The cost of exiting these strategies early is prohibitive and would have a negative financial impact on the Fund. These assets will be managed in a manner consistent with LGPS asset pooling regulations and the Committee will work closely with the London CIV.

10. Regulation 7(2)(e) - Policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund's beneficiaries with an acceptable level of risk. The Committee seeks to deliver long-term sustainable returns and recognises that it is consistent with its fiduciary duty to manage environmental, social and corporate governance ('ESG') issues that may be financially material.

Consequently the Committee has developed a Responsible Investment Policy.

The Committee 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.

The Committee 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 investment managers (and specifically the London CIV 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, including ESG factors.

Effective monitoring and identification of these issues can enable engagement with 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 Committee recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes. The Corporation is a signatory to the Principles for Responsible Investment (PRI) and is a member of the Local Authority Pension Fund Forum (LAPFF). In this way it joins with other investors in the LGPS and beyond to magnify its voice and maximise the influence of investors as asset owners. The Committee 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 it invests.

The Committee seeks to identify sustainable investment opportunities where aligned with its broader investment objectives.

In making investment decisions, the Committee seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

11. Regulation 7(2)(f) - Policy on the exercise of the rights (including voting rights) attaching to investments

The Committee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promote corporate responsibility in the underlying companies in which its investments reside. The Committee recognises that ultimately this approach protects the financial interests of the Fund and its beneficiaries. The Committee has a commitment to actively exercise the ownership rights attached to its investments. This reflects the Committee's conviction that responsible asset owners should maintain oversight of the companies in which they ultimately invest, 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.

The Committee seeks to exercise its voice through engagement with its investment managers (and consequently portfolio companies) as part of its active ownership, or stewardship, duties to its beneficiaries.

The Committee aims to exercise its voting rights in all markets and its investment managers are required to vote at all company meetings where practicable.

The Committee expects its investment managers (including the London CIV) to comply with the UK Stewardship Code (2020). Non-UK managers will be expected to sign up to an equivalent code in their country of origin.

The Committee delegates voting and engagement to its investment managers and monitors how its investment managers undertake voting and engagement activities in comparison to relevant codes of practice.

Any investments made by the Fund through the London CIV are covered by the voting policy of the London CIV. Voting is delegated to the external managers and monitored on a quarterly basis. The London CIV will arrange for managers to vote in accordance with voting alerts issued by the LAPFF 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.

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.

Investment Managers

As at 31 March 2025, the Fund assets were invested in portfolios managed by the external investment managers shown in the table below. They are benchmarked against the indicated indices.

Investment Manager	Asset Class	Comparator Index
Artemis Investment Management LLP	UK equities	FTSE All Share
C Worldwide Asset Managers	Global equities	MSCI AC World
London CIV (Baillie Gifford)*	Global equities	MSCI AC World
London CIV (Wellington)*	Global equities	MSCI AC World
London CIV (Morgan Stanley)*	Global equities	MSCI AC World
Ruffer LLP	Multi-asset	CPI +4%
London CIV (CQS)*	Multi-asset credit	3 Month SONIA+4%
London CIV (Insight Investment Management Limited)*	Corporate Bonds	iBoxx GBP Coll & Corp 0-5 iBoxx GBP Coll Corp 10+
London CIV (Multi-Manager)*	Infrastructure	CPI +4%
IFM Global Infrastructure (UK) LP	Infrastructure	CPI +4%
JP Morgan	Infrastructure	CPI +4%
DIF Infrastructure IV Cooperatief UA	Infrastructure	CPI + 4%
Aviva Investors Global Services Limited (Lime Property Fund)	Property	Gilts + 1.5%
M&G Investment Management Limited (Secured Property Income Fund)	Property	RPI + 3%
M&G Investment Management Limited (UK Residential Fund)*	Property	+6%
Ares Special Situations Fund IV	Private equity	Broad public equities index
Coller International Partners VII	Private equity	Broad public equities index
Crestview Partners III LP	Private equity	Broad public equities index
Exponent Private Equity Partners III, LP	Private equity	Broad public equities index
Frontier Fund IV	Private equity	Broad public equities index
Environmental Technologies Fund Managers LLP	Private equity	Broad public equities index
New Mountain Capital LLC	Private equity	Broad public equities index
Aberdeen Capital Partners LLP	Private equity	Broad public equities index
Warburg Pincus PE XII	Private equity	Broad public equities index

*The Pension Fund is invested in seven funds available on the London CIV pooling platform: the LCIV Global Alpha Growth Fund (Baillie Gifford), the LCIV Global Equity Value (Wellington), the LCIV Global Equity Quality (Morgan Stanley), the LCIV ACF Fund (CQS), the LCIV Short and Long Duration Funds (Insight Investment Management Limited) and the LCIV Renewable Infrastructure Fund which there is an outstanding commitment of £63.9m. The Pension Fund is also invested in the M&G UK Residential Fund which is managed by the London CIV.

The table below shows the actual asset allocation versus the strategic target as at 31 March 2025.

Asset class	Current position		Strategic target
	%	%	%
Equities		49	45
UK equities			
Artemis	9		
Global equities			
C WorldWide	10		
London CIV (Baillie Gifford)	12		
London CIV (Wellington)	8		
London CIV (Morgan Stanley)	10		
Multi asset		7	7
Ruffer	7		
Multi asset Credit		9	8
London CIV (CQS)	9		
Property		8	10
Aviva	3		
M&G SPIF	2		
M&G UK Residential	3		
Infrastructure		10	8
IFM	4		
JP Morgan	5		
DIF	1*		
Renewable Infrastructure	1*	1	5
Private equity	1*	1	2
Corporate Bonds		13	15
London CIV (Insight)	13		
Cash (internal)	2	2	0
Total		100	100

*This does not include outstanding commitments that represent approximately 4.6% of the total Fund value as at 31 March 2025.