Appendix 1

CITY OF LONDON 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 its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. The purpose of the Investment Strategy Statement (the ISS) is to document the principles, policies and beliefs by which the City of London Corporation's Investment Committee (working through the Financial Investment Board ('the Board')) manages the City of London Pension Fund's ('the Fund') assets. The document takes account of:

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- The requirements of the Pensions Act 2013.
- The requirements of the Occupational Pension Schemes (Investment) Regulations 2005.

The Local Government Pension Scheme ('LGPS'), of which the Fund is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

The City of London Corporation is the Administrating Authority for the Fund.

The Financial Investment Board consulted with and received advice from the Fund's investment consultant, Mercer, on this statement. The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy.

There are close links between this statement and two other statements. The Funding Strategy Statement ('FSS') sets out the main aims of the Fund and explains how employers' contribution rates are set to achieve those aims. The Governance Compliance Statement sets out the structure of delegations of responsibilities for the Fund. These are incorporated in the Pension Fund Annual Report.

2. Governance

The City of London Corporation's Court of Common Council and Finance Committee have delegated the investment management responsibility of the Fund to the Investment Committee which in turn has charged the detailed investment arrangements to the Financial Investment Board. 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 Financial Investment Board is made up of between 12-14 Members of the Investment Committee, comprising elected Members.

The Financial Investment Board is empowered to co-opt people with relevant expertise or experience, including non-Members of the Court of Common Council, to assist in its deliberations.

There is provision within Standing Orders to enable the Chairman of the Financial Investment Board to report on and speak on their activities and responsibilities in the Court of Common Council and to ensure that any decisions are taken without undue delay.

Members of the Financial Investment Board 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 Members (pensioners, employees and employers), together with local Council Tax Payers.

2.1 Liabilities

The LGPS is a defined benefit pension scheme which provides benefits related to the final salary or average salary of members. The Fund is a contributory defined benefit arrangement, with active members and contributing employing authorities.

The value of the Fund's on-going liabilities is sensitive to various demographic (principally longevity) and financial factors. The financial factors relevant to the Fund's investment policy are:

- the expected rate of return on assets / discount rate
- price inflation
- salary escalation for active members' pre 2014 benefits

2.2 Maturity and Cashflow

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's 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.

3. 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.

4. Strategic Asset Allocation

The Board regards the choice of asset allocation policy as the decision that has most influence on the likelihood of achieving their investment objective. The Board retains direct responsibility for this decision which is made on the advice of their investment adviser.

The investment strategy will normally be reviewed every three years. In addition if there is a significant change in the capital markets, in the circumstances of the Fund or in governing legislation then an earlier review may be conducted.

In keeping within the regulatory framework set out in the LGPS regulations, the Board formulates the investment strategy with a view to:

- the advisability of investing money in a wide variety of investments; and

- the suitability of particular investment and types of investment.

The Board will consider a full range of investment opportunities including:

- public and private equity;
- government and non-government bonds;
- property;
- hedge funds and other alternative investments; and
- infrastructure.

The Board further considers the legality of all investments for compliance with the LGPS.

The Board determines the strategic asset allocation policy after considering projections of the Fund's assets and liabilities which are calculated by the Fund's investment adviser, in liaison with the Fund's actuary. This asset-liability study/investment strategy review examines different combinations of assets to determine which combination will best meet the Fund's objectives.

The Board reviewed the Fund's investment strategy following its 2013 actuarial valuation and agreed the target asset allocation strategy set out in the table below which is outlined in more detail in Appendix A.

Asset Class	**Position as at 31/3/2016 %**	**Strategic target as at 2013/14 %**
UK Equities	18	17
Global Equities	43	33
Multi Asset	33	30
Property	0	10
Infrastructure	4	5
Private Equity	2	5
Total	**100**	**100**

5. Assessment of Suitability of particular investments and types of investments

5.1 Expected return on investments

The asset-liability study takes into account the particular liabilities of the Fund.

In addition to a full specification of the Fund's benefits, the study will make important assumptions about the behaviour of various asset classes (such as their expected return over long periods of time and the variability of those returns) and the liabilities in the future. Expected annualised returns are formulated for each asset class based on long term capital market assumptions, and volatilities. The returns and volatilities used for each asset class are shown in the table below, and are based on Mercer's Capital Market Assumptions as at 31 March 2016.

Asset Class	10 Year Expected Annual Return %	10 Year Annual Volatility %
Developed Global Equity (Fx hedged)	6.0	17.3
Emerging Market Equity	7.5	29.4
UK Property	4.5	14.7
UK Gilts (>15 year)	1.5	10.4
UK Investment Grade Corporate Bonds	2.7	4.1
UK Index-Linked Gilts (>5 year)	1.2	8.5
Global Fund of Hedge Funds	3.7	8.0
Global Private Equity	8.3	24.1

5.2 Current Strategy

The asset allocation strategy is implemented by appointing expert fund managers with clear performance targets aligned to the Fund's requirements. In order to achieve this objective and to ensure diversification by asset class and style, the City of London Corporation has a number of investment managers. The aim is to invest assets to ensure that the benefits promised are provided as far as can reasonably be expected. The asset allocation selected is designed to achieve a higher return than the minimum required while managing risk against the need to meet the Fund's liabilities. The Board receives annual funding updates from the Actuary.

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.

5.3 Currency hedging policy

The Board considers currency risk as an unrewarded risk – one that is expected to increase the volatility of the Fund, but not increase return. Certain fund managers have been granted authority to hedge the currency risks attached to their investment portfolios when they consider this to be desirable. The Fund's investment consultant, Mercer, will provide advice on the level and timing of any future currency hedging programme.

5.4 Implementation.

The Board has appointed investment managers to manage the Fund's investments as set out in Appendix A .

The Board believe the use of active management within the Fund will increase the likelihood that its objectives will be met.

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.

5.5 Selection and realisation of investment

Each investment manager has full discretion in terms of stock selection within the constraints agreed with each manager. The majority of investments held within the Fund are pooled investments with daily liquidity. The City's Private Equity and Infrastructure investments are relatively illiquid and may take longer to realise, if required.

The current list of investment managers and pooled funds (as at 31 March 2016) used with a view to implementing the above strategy is set out in the Appendix A to this document.

5.6 Security lending

The Fund does not have a security lending policy in place.

5.7 Custody

The Board regards the safekeeping of the Fund's assets as of paramount importance but as the Fund's assets are invested through pooled vehicles this function is the responsibility of the individual investment managers. In addition, the Board has appointed BNY Mellon asset servicing company as global custodian and record-keeper of the Fund's assets.

6. Risk Management

The Financial Investment Board regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures, which are set out in this Statement, to minimise this risk so far as is possible.

In particular, in arriving at the investment strategy and the production of this Statement, the Financial Investment Board has considered the following key risks:

- asset-liability mismatch (asset allocation risk);
- to pay benefits when due (cash-flow risk);
- inadequate investment manager performance (active manager risk);
- investment failure (investment and concentration risk);
- sustainability of returns (ESG risk)
- fluctuating foreign exchange rates (currency risk)
- counterparty unable to meet contractual obligations (counterparty risk); and
- loss of securities held in custody (custody risk).

Following each actuarial valuation, the Board will conduct an asset/liability review, which focuses on the impact of asset allocation on expected future funding levels. The Board considers the results using advanced modelling techniques, and, with the assistance of expert advisers, are able to measure and quantify them in terms of their definitions of risk. This allows the Board to assess the probabilities of critical funding points associated with different investment strategies.

Consideration is given to the volatility of a number of parameters (e.g. items associated with accounting measures, contributions, etc), to further assess the potential risks associated with a particular investment strategy.

The process of risk management continues through to implementation. 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. The pooled fund investments and direct investments are governed by the terms and conditions of the fund and/or policy documents. Frequent monitoring of portfolio performance and exposure characteristics also aids in the on-going risk management for the Fund.

7. Approach to Pooling Investments, including the use of collective investment vehicles and shared service

The 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.

The Fund will look to transition assets as and when appropriate to do so once the relevant investment strategies are available to meet the Fund's asset allocation and investment strategy needs. The Fund has investments in infrastructure valued at £31m as at 31/03/2016 with outstanding commitments of some £17m. It also has private equity investments valued at £15M as at 31/03/2016 with outstanding commitments of some £23m 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 are re-invested through the pool, assuming it has appropriate strategies available, or until the Fund changes asset allocation and makes a decision to disinvest.

8. Environmental, Social and Corporate Governance Policy

The Fund has an overriding fiduciary duty to maximise investment returns for the benefit of the pension fund members. It 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.

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 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 and has invited them to outline how they approach this and whether they are signatories to the UN Principles of Responsible Investment.

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. This will include social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

9. Voting Policy

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 exercise the ownership rights attached to its investments. This reflects 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. The Fund is invested in pooled assets and as such is dependent on the investment manager to exercise any voting rights

Any investments made by the Fund through the London CIV are covered by the voting policy of the London 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 London CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (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.

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 to 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.

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 it 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

Appendix A

Investment Managers

As at 31 March 2016 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 and the table shows whether portfolios are managed on a segregated or pooled basis.

Active Portfolios			
Investment Manager	**Asset Class**	**Comparator Index**	**Type**
Artemis Investment Management Ltd	UK equity	FTSE All Share	Pooled
Grantham, Mayo, Van Otterloo & Co. (GMO) (i)	UK equity	FTSE All Share	Pooled
C Worldwide Asset Managers (formerly Carnegie Asset Management)	Global equities	MSCI AC World	Pooled
Natixis International Funds (Harris Associates) (ii)	Global Equities	MSCI World	Pooled
Veritas Asset Management	Global equities	MSCI World	Pooled
Wellington Management International	Global equities	MSCI AC World	Pooled
Pyrford International	Multi-asset	RPI +4%	Pooled
Ruffer LLP	Multi-asset	RPI +4%	Pooled
Standard Life Investments	Multi-asset	6 Month LIBOR	Pooled
IFM Global Infrastructure (UK) LP	Infrastructure	RPI +4%	Pooled
DIF Infrastructure IV Cooperatief UA	Infrastructure	RPI + 4%	Pooled
Ares Special Situations Fund IV	Private equity	Broad public equities index	Pooled
Coller International Partners VII	Private equity	Broad public equities index	Pooled
Crestview Partners III LP	Private equity	Broad public equities index	Pooled
Exponent Private Equity Partners III, LP	Private equity	Broad public equities index	Pooled
Frontier Fund IV	Private equity	Broad public equities index	Pooled
Environmental Technologies Fund Managers LLP	Private equity	Broad public equities index	Pooled
New Mountain Capital LLC	Private equity	Broad public equities index	Pooled
NCM Management (UK) Ltd	Private equity	Broad public equities index	Pooled
Standard Life Investments Private Equity Ltd	Private equity	Broad public equities index	Pooled
YFM Equity Partners	Private equity	Broad public equities index	Pooled
Warburg Pincus PE XII	Private equity	Broad public equities index	Pooled

The table below shows the asset allocation as at 31 March 2016

Asset Class	Current Position		Strategic target as at 2013/14
	%	%	%
UK Equities		18	17
• Artemis	9		
• GMO	9		
Global Equities		43	33
• Carnegie	12		
• Harris	9		
• Veritas	12		
• Wellington	10		
Multi Asset		33	30
• Pyrford	15		
• Ruffer	10		
• Standard Life GARS	8		
Property	0	0	10
Infrastructure		4	5
• IfM	4		
• DIF	0		
Private Equity	2(ii)	2	5
Total		**100**	**100**

Notes:

(i) A decision was been taken to remove GMO and redistribute monies across two new UK fund managers – Majedie and Lindsell Train. This transaction was completed in June 2016.

(ii) This percentage represents the value of the private equity investments as at 31 December 2015.