



**London Borough of Sutton Pension Fund**

**Investment**

**Strategy Statement**

(December 2025)

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# 1. Introduction

This is the Investment Strategy Statement (“ISS”) of the London Borough of Sutton Pension Fund (“the Fund”), which is administered by Sutton Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Mercer. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was previously approved by the Committee on XX December 2022, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons as it considers appropriate.

The Committee seeks to invest in accordance with the ISS any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement.

# 2. The Suitability of Types of Investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

In order to meet this primary objective the Committee aims to:

- Maximise the returns from investments, whilst keeping risk within acceptable levels
- Contribute towards achieving and maintaining a future funding level of 100%
- Enable employer contribution rates to be kept as stable as possible

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments, whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

In addition, the Committee monitors its investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund’s level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. Actual against target allocation for each of the main asset classes is recorded within the quarterly performance monitoring report.

### **3. Fund Investment Beliefs**

The Investment beliefs of the Committee are set out in Appendix 1. The Committee has also developed an extensive set of beliefs and policies on responsible investment and climate risk which are set out in the Funds Responsible Investment Policy.

### **4. Investment in a Variety of Investments**

#### **Asset classes**

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, debt instruments, infrastructure and commodities, either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management, or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability.

The Fund's target investment strategy is set out below in Table 1 as well as strategic ranges for each asset class as the Fund works towards the new target allocation over time. The table also includes assumptions about expected long-term (20 year) returns (net of fees) for each of the main asset classes as per the assumptions made by the Fund's investment consultant as part of the Investment Strategy Review. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

**Table 1: Strategic Asset Allocation**

<b>Asset Class</b>	<b>Target Allocation %</b>	<b>Strategic Range %</b>	<b>20 year Target Return %<sup>1</sup></b>	<b>Role within the Strategy</b>
Listed Equity	45.0	40.0-52.5	6.1	Generate returns from capital appreciation and income. Invest in a diversified range of actively and passively managed equity strategies to access a diverse range of return drivers.
Private Equity	5.0	0.0-7.0	9.0	Generate returns from capital growth and income with an expected illiquidity premium over public markets
Corporate Bonds	5.0	2.5-7.5	6.3	Diversified exposure to public debt and corporate bond markets, providing less volatile returns than equities, above gilts over the long-term
Multi Asset Credit	10.0	7.5-12.5	7.1	
Private Debt	7.0	4.5-10.0	6.9	Generate income from a diversified portfolio of private debt investments, generating income with an expected illiquidity premium over public market debt.
Infrastructure	10.0	7.5-12.5	6.3	Invest in a diversified range of investments providing Inflation linked returns and income generation
Property	10.0	7.5-12.5	7.1	
Index-Linked Gilts	8.0	5.0-11.0	4.7	
Cash	0.0	0.0-3.0	3.6	To facilitate the Fund's working capital requirements
<b>Total</b>	<b>100.0</b>			

As part of the 31 March 2025 actuarial valuation the Fund Actuary has assumed a discount rate and therefore required rate of return on the Fund assets of 5.3% p.a. This includes an allowance for prudence. The Committee believes that the current investment strategy will generate returns in excess of the required return while taking an appropriate degree of risk and tests the ability of the strategy to meet the Fund's objectives as part of the strategy review process.

### **Cashflow Requirement**

In order to ensure that the Fund can meet its obligation to pay the pension benefits due to its members on time, without needing to sell investment assets, it is estimated that

<sup>1</sup> Returns are from Mercer's model as at 31 March 2025 and are on the best estimate basis i.e. 50% probability of being achieved

investment income of £4m per annum will be required.

Table 2 below shows the investment strategy for the Fund using the template provided as part of the government's Fit for the Future consultation response.

**Table 2: Strategic Asset Allocation**

<b>Asset Class</b>	<b>SAA %</b>	<b>Tolerance Range (%)</b>
Listed Equity	45.0	40.0-52.5
Private Equity	5.0	0.0-7.0
Private Credit	7.0	4.5-10.0
Property/Real Estate	10.0	7.5-12.5
Infrastructure	10.0	7.5-12.5
Other alternatives	0.0	0.0-5.0
Credit	15.0	10.0-20.0
UK Government Bonds	8.0	5.0-11.0
Cash	0.0	0-3
<b>Total</b>	<b>100.0</b>	<b>0.0</b>

## 5. Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

## 6. Local Investment

The fund has a desire to invest a proportion of the Fund locally, defined as within the LCIV pool area, provided these investments meet the Fund's broader financial objectives. The fund is already invested in the London Fund which seeks to address London's housing and infrastructure challenges whilst providing sustainable, risk-adjusted returns for the Fund. The

Fund has set a target range for local investment of 0-5% . The fund will have regard to local growth plans and local economic priorities and will work with LCIV, the Greater London Authority (GLA) and other London Boroughs to identify suitable local investment opportunities. LCIV will be responsible for carrying out due diligence on the local investment opportunities identified to assess their suitability.

## 7. Approach to Risk

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

### Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on the probability of success and level of downside risk. The Committee carried out a strategic review following the completion of the 2025 actuarial valuation and reviewed the probability of achieving the Fund's objectives and the level of risk being taken within the strategy. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

## Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors including climate risks reduce the Fund’s ability to generate long-term returns.
- Manager underperformance - The failure by the investment managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows:

The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assesses the Fund’s currency risk during their risk analysis. The committee will consider currency hedging on an asset class case by case basis and set currency hedge targets as appropriate.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager, using a range of approaches for equity investment and having a proportion of the Fund’s assets managed on a passive basis. The Committee assesses the Fund’s managers’ performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Details of the Fund’s approach to managing ESG risks is set out later in this document.

## Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

## 8. Pooling of Investments

The Government's Fit For The Future consultation response indicated the government's intention that all Fund assets be managed by the pool. The government has published The Pensions Bill which, once the legislative process has completed, will make this approach mandatory. The Fund is a participating scheme in the London Collective Investment Vehicle (LCIV) Pool. The structure and basis on which the London CIV Pool operates is regularly reported to the Government.

### Assets to be invested in the Pool

The Fund's intention is to invest all of its assets through the London Collective Investment Vehicle (LCIV) Pool. The Fund retains responsibility for setting the Strategic Asset Allocation and setting the Responsible Investment Policy for the Fund. Implementation of the investment strategy and responsible investment policy will be the responsibility of the LCIV pool from 1st April 2026 onwards.

At the time of writing this statement the Fund has already invested the following assets via the LCIV Pool:

<b>Mandate</b>	<b>Managers</b>	<b>Benchmark/Target</b>
LCIV Global Equity Fund	Newton	MSCII AC World Index
LCIV Sustainable Equity Fund	RBC	MSCII AC World Index
LCIV Passive Equity Progressive Paris Aligned Fund	StateStreet	S&P Developed Ex-Korea LargeMidCap New Zero 2020 Paris-Aligned ESG Index (GBP)
LCIV MAC Fund (Multi Asset Credit)	PIMCO, CQS	Target: SONIA +4.5%
LCIV Private Debt Fund	Pemberton, Churchill	Target: IRR 6-8%
LCIV Renewable Infrastructure Fund	Quinbrook, Stonepeak, Foresight, Macquarie, Copenhagen, Blackrock	Target: IRR 7-10%
LCIV Housing Fund	Octopus, CBRE, Man, L&G	Target: IRR 5-7%

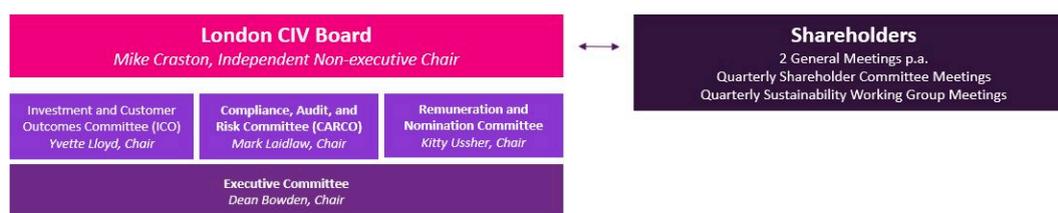
LCIV London Fund	LPPI	Target: CPI +3%
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At the time of preparing this statement the Fund holds the following mandates outside of the LCIV. A transition plan for enabling these assets to be managed by LCIV is being finalised at the time of writing this statement.

Mandate	Manager	Benchmark/Target
Global Equities (Passive)	LGIM	Solactive L&G ESG Global Markets Net
Property	La Salle	MSCI All Property Funds Median Index
Property	Invesco	Absolute 6% target
Property	Blackrock	MSCI All Property Funds Median Index
Infrastructure	Partners Group	Absolute 8% Target
Index Linked Gilts	LGIM	FTSE A UK Index-Linked Gilts >5

## Structure and governance of the London CIV Pool

The current structure and governance framework of the London CIV is set out below:



Source: London CIV

## 9. Responsible Investment

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 Pension Committee undertakes training on a regular basis and this will include training and

information sessions on matters of social responsibility, environmental risk 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.

## Impact Investing

The Fund has a desire to invest 10% of the total fund assets in investments that have a measurable, real world positive impact on people or the environment, alongside a suitable level of financial return.

## Voting rights

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and corporate responsibility in the underlying companies in which it invests. The Fund recognises that ultimately this protects the financial interests of the Fund and its beneficiaries. The Fund has a commitment to actively exercise the ownership rights attached to its investments, reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which they 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. Further detail on the Fund's Voting policy is set out in the Fund's Responsible Investment Policy.

## Stewardship

The Committee expects both the London CIV Pool and any directly appointed fund managers to comply with the Stewardship Code and this is monitored on an annual basis.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

## 10. Approval and Review

This Investment Strategy Statement was approved on 9th December 2025 by the Pension Fund Committee. It will be formally reviewed and updated at least every three years or sooner if the investment strategy or other matters included within it merit reconsideration, including if there are any changes to the LGPS rules or other relevant Regulations or Guidance which need to be considered.

## Appendix 1 - Statement of Investment Beliefs

This document sets out the investment beliefs of the Pensions Committee (the “Committee”) of the London Borough of Sutton as administering authority to the London Borough of Sutton Pension Fund (the “Fund”).

**Belief: Clear and well defined objectives are essential to achieve future success**

The Committee is aware that there is a need to generate a sufficient level of return from the Fund’s assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members’ benefits as they fall due. The Committee have considered their own priorities and believe that setting clear objectives for the Fund is key in providing focus for the way the investment strategy is implemented.

**Belief: Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection**

The Committee understands that having the appropriate strategy in place is a key driver of the Fund’s future success. As a result, priority is given to more strategic investment matters.

**Belief: Funding and investment strategy are linked**

The Committee understands that a number of funding related aspects feed into investment strategy decisions, including maturity, employer covenant and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are

looked at in tandem by the Committee.

## **Belief: The Committee will take an appropriate level of investment risk**

As a long term LGPS Fund the Committee acknowledges the need to take investment risk to ensure the affordability and sustainability of the Fund. However, the level of risk will be set which is aligned to the long term objectives, with a view to taking appropriate and not unnecessary levels of risk and managing funding level volatility.

## **Belief: Long term investing provides opportunities for enhancing returns**

The Committee believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

## **Belief: Equities are expected to generate superior long term returns**

The Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

## **Belief: Diversification can provide more stable investment returns and help manage volatility**

The Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Committee believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, absolute return funds, infrastructure and property) will provide the Fund with diversification benefits.

## **Belief: Fees and costs matter**

The Committee recognises that fees and costs reduce the Fund's investment returns. The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. The Committee will consider paying higher fees in areas where there is real value and manager skill which can help the Fund achieve better or more consistent net of fees returns.

## Belief: Funding level movements will be reflected in both the levels of cash contributions and investment risk

Should the funding level of the Fund improve or fall away from current levels the Committee will consider both the approach to funding and investment risk and will not solely look to minimise/maximise contributions or investment risk but find a balanced approach to investment and funding requirements that is aligned to the long term objectives of the Fund.

## Beliefs: Market inefficiencies will provide opportunities to add value over time

The Committee believes that at times relative market movements or dislocations will provide opportunities to generate additional returns for the Fund. However, the Committee does not believe that they are best placed to capitalise on these opportunities. The Committee will therefore set mandates with the flexibility for managers to add value through allocation decisions where deemed appropriate. Alongside this the Committee will assess the position of the Fund against the long term strategic benchmark and any requirements to rebalance back toward the long term target.

## Belief: Active management can add value but is not guaranteed

The Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Committee will therefore use active management selectively and when doing so will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance will arise, the Committee seeks to minimise the additional risk from active management, and continue to monitor active managers to ensure their mandates remain appropriate for the Fund.

## Belief: Responsible Investment is important to the Committee and can have a material impact on the long term performance of its investments

The Committee recognises that Responsible Investment issues incorporating all forms of ESG issues can impact the Fund's returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Committee commits to an ongoing review of its Responsible Investment policy to ensure it reflects latest industry developments and regulations and currently focuses on active engagement through working with managers and bodies such as the LAPFF.

Belief: There is a potential premium to be earned from illiquidity which the Fund can benefit from

The Committee believes that there are some more illiquid asset classes which the Fund can invest in where the Fund will benefit from the illiquid nature of the investments through attractive risk adjusted returns. The Committee will consider what is deemed an appropriate allocation to illiquid assets in the context of the changing net cashflow position of the Fund and will continue to monitor this over time.

## Appendix 2 - Compliance with Myners Principles

### Principle 1: Effective Decision Making

Compliant: The London Borough of Sutton has an appointed Pension Fund Committee consisting of elected members and other non-voting representatives and there is a clearly defined decision-making process. The Panel is supported by the Section 151 Officer and other officers on investment and administration issues. It also employs an investment consultant and actuary. Training on investment issues is provided to the Committee as needed. Members of the Committee are also encouraged to attend training sessions offered from time to time by other external bodies.

### Principle 2: Clear Objectives

Compliant: The overall objective for the Fund is to keep the employers' contribution rates as low and stable as possible while achieving full funding on an ongoing basis. The Panel has as its starting point the latest actuarial valuation when reviewing the investment arrangements and setting the investment strategy. The Investment Managers are advised of the strategy and have clearly defined investment performance targets. The objectives will be reconsidered following the next actuarial valuation and investment strategy review to ensure they remain appropriate.

### Principle 3: Risk and Liabilities

Compliant: The Committee has given due consideration to risks and liabilities as explained in the 'Risk' section above. A strategic asset allocation benchmark has been set for the Fund. The Fund also subscribes to the Pensions and Investments Research Consultants Local Authority Universe as a broad comparison with other local authority schemes.

### Principle 4: Performance Assessment

Compliant: The returns of the Investment Managers are measured independently against their performance objectives and they are required to report on investment performance each quarter.

## Principle 5: Responsible Ownership

Compliant: The Panel maintains a Responsible Investment policy, and the Fund's approach is outlined in this document.

## Principle 6: Transparency and Reporting

Compliant: Documents relating to the management of the Pension Fund investments are published on the Council's website – these include the Investment Strategy Statement, the Annual Report and Accounts, the Funding Strategy Statement and the Governance Compliance Statement