Statement of Investment Principles

For the Harwich Haven Authority Pension Fund

Effective from: 31 December 2022

1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustees of the Harwich Haven Authority Pension Fund.

It sets out our policies on various matters governing investment decisions for the Harwich Haven Authority Pension Fund ("the Fund"), which is a Defined Benefit ("DB") pension fund. This SIP also covers the Additional Voluntary Contribution arrangements ("AVCs").

This SIP replaces the previous SIP dated 4 May 2021.

This SIP has been prepared after obtaining and considering written professional advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Fund and the principles contained in this SIP.

We have consulted with the employer in producing this SIP.

We will review this SIP from time to time and amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Fund's investments, but which are not required to be included in the SIP.

2. Investment objectives

The primary objective for the Fund is that benefit payments are met as they fall due. In addition to this primary objective, we have the following objectives:

- that the expected return on the Fund's assets is maximised whilst managing and maintaining investment risk at an appropriate level
- that the Fund should be fully funded (ie the asset value should be at least that of its liabilities). There are various measures of funding and we have given due weight to those most relevant to the Fund.

Our investment objective for the AVC arrangements is to make available suitable investment options.

3. Investment strategy

With input from our advisers and in consultation with the employer, we reviewed the investment strategy in November 2022, considering the objectives above.

The investment strategy we decided upon for the Fund is as follows:

Asset class	Strategic allocation
Diversified Growth Funds	**25%**
Matching portfolio (per split below)	**75%**
Corporate bonds / buy and maintain credit	25%
Leveraged gilts, gilts, and cash collateral	50%
Total	**100%**
Strategy expected return (% pa above gilts)*	**1.0%**
Target interest rate and inflation hedging (Technical Provisions basis)	**90%**

* The expected return is based on the long term investment assumptions of our adviser (LCP) as at 30 September 2022 and may change if LCP's assumptions change.

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to reflect the Fund's circumstances. We believe that the investment strategy meets this objective. As the Fund matures over time and funding position improves, we intend to de-risk the investment strategy to reflect the change in the liability profile and stronger funding position.

There is no formal rebalancing policy. We monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, we will consider with our advisers whether it is appropriate to rebalance the assets.

Whilst the main Fund assets are invested in line with the above AVCs are currently invested with Legal & General.

4. Considerations in setting the investment arrangements

When deciding how to invest the Fund’s assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

The primary ways that we manage investment risk is via diversification, ensuring that we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. Investment risk is measured using “Value at Risk”.

Further details of specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in the SIP addendum.

In setting the strategy for the Fund it is our policy to consider:

- our investment objectives, including the target return required to meet these
- the circumstances of the Fund, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant
- the need for appropriate diversification between different asset classes to manage investment risk, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

In determining the investment arrangements for the AVCs it is our policy to consider the overall best interests of members and beneficiaries, the profile of the membership, and the ongoing suitability of the AVC investments.

We also consider any other factors which we believe to be financially material over the applicable time horizons to the Fund, including environmental, social and governance (“ESG”) factors such as climate change.

Our key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important
- passive management generally means lower fees than active management, and so may be more appropriate for investments where there is not expected to be opportunity for active managers to add value, but active management may be worth considering where there are such opportunities. As such we consider the appropriateness of active and passive management with our investment advisers when considering any new type of investment
- ESG factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors
- climate change is a financially material systemic issue that presents risks and opportunities for the Fund over the short, medium and long term
- voting and engagement are important and can create long term value which is in the best interest of the Fund’s members and therefore we encourage managers to improve their voting and engagement practices.

5. Implementation of the investment arrangements

We have limited influence over managers' investment practices because all the Fund's assets are held in pooled funds, but we encourage our managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions of the funds that they manage. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to our policies. We expect investment managers to make decisions based on assessments of the longer term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer term periods as available. In general, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice.

6. Realisation of investments

We instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable, but we recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use cash flows to rebalance the assets towards the strategic asset allocation.

7. Financially material considerations and non-financial matters

We have considered how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Fund and its members.

We influence the Fund's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and periodically review how the managers are taking account of these issues in practice.

All the Fund's assets are invested in pooled funds. We have limited influence over managers' investment practices where assets are held in pooled funds, but we encourage the managers to improve their ESG practices within the parameters of their funds.

We do not consider any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments

8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

We seek to appoint investment managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. We expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

We monitor managers' activities in relation to ESG factors, voting and engagement periodically. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

We have selected three priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We review the themes regularly and update them if appropriate. We have communicated these stewardship priorities to our managers. If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements.