

# Investment and Funding Beliefs

Isle of Wight Council Pension Fund

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**PAPER B**

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# Workshop responses

- In September the Committee participated in a workshop designed to assess member views on a variety of issues with the aim of drafting a well-defined set of objectives and investment beliefs.
- The responses from the workshop questionnaire were collated and a set of objectives and beliefs have been drafted to reflect the Committee's view on a variety of issues including; governance, strategy, risk management and responsible investment. A summary of the collated responses is provided overleaf.
- The Committee should review the proposed objectives and beliefs and consider them for approval.
- It is important for the Committee to note that the aim of introducing investment beliefs is to act as an aid for consistent decision making. These principles are not designed to be a strict set of rules and should be challenged and adapted as appropriate.













# Workshop responses

What is important to you?	Responses
1. Key priorities	<ol style="list-style-type: none"><li>1. <b>Setting investment strategy</b></li><li>2. Agreeing your objectives</li><li>3. Setting Investment structure (active vs passive)</li><li>4. Fund manager selection</li></ol>
2. Key priorities	<ol style="list-style-type: none"><li>1. <b>Achieving the required level of return</b> - maybe lower than the maximum</li><li>2. Controlling funding volatility</li><li>3. Maximising returns</li><li>4. Taking no unnecessary risks</li></ol>
Key Risks	Responses
3. Key determinants of achieving investment objective	<ol style="list-style-type: none"><li>1. <b>An appropriate investment strategy</b></li><li>2. Appropriate regional and sector exposures to equities and bonds</li><li>3. Introduction of pooling</li><li>4. Choice of investment managers</li><li>5. Managing cash to meet benefit outflows</li><li>6. Investment manager fees</li></ol>
4. Biggest Investment risks faced by the fund	<ol style="list-style-type: none"><li>1. <b>The transition into the ACCESS Pool</b></li><li>2. Inability to generate sufficient long term returns</li><li>3. Changes in Fund cash flow</li><li>4. High levels of inflation</li><li>5. Governance Constraints</li><li>6. Fees</li></ol>

Current beliefs	Responses
How well does the Fund's current investment arrangements reflect your investment beliefs?	<p>Not at all      Perfectly</p>
The requirements for setting the current investment strategy have changed since it was set	<p>Disagree      Agree</p>
I am confident that the current managers and mandates remain appropriate for the Fund	<p>Disagree      Agree</p>

Objective horizon	Responses
What is the appropriate time horizon for setting the investment strategy?	<p>0-5yrs      20-25yrs</p>
Over what time period should investment decisions be assessed?	<p>0-5yrs      20-25yrs</p>
At 100% funding, what would you most want to have?	<p>Low conts/high risk      High conts/low risk</p>

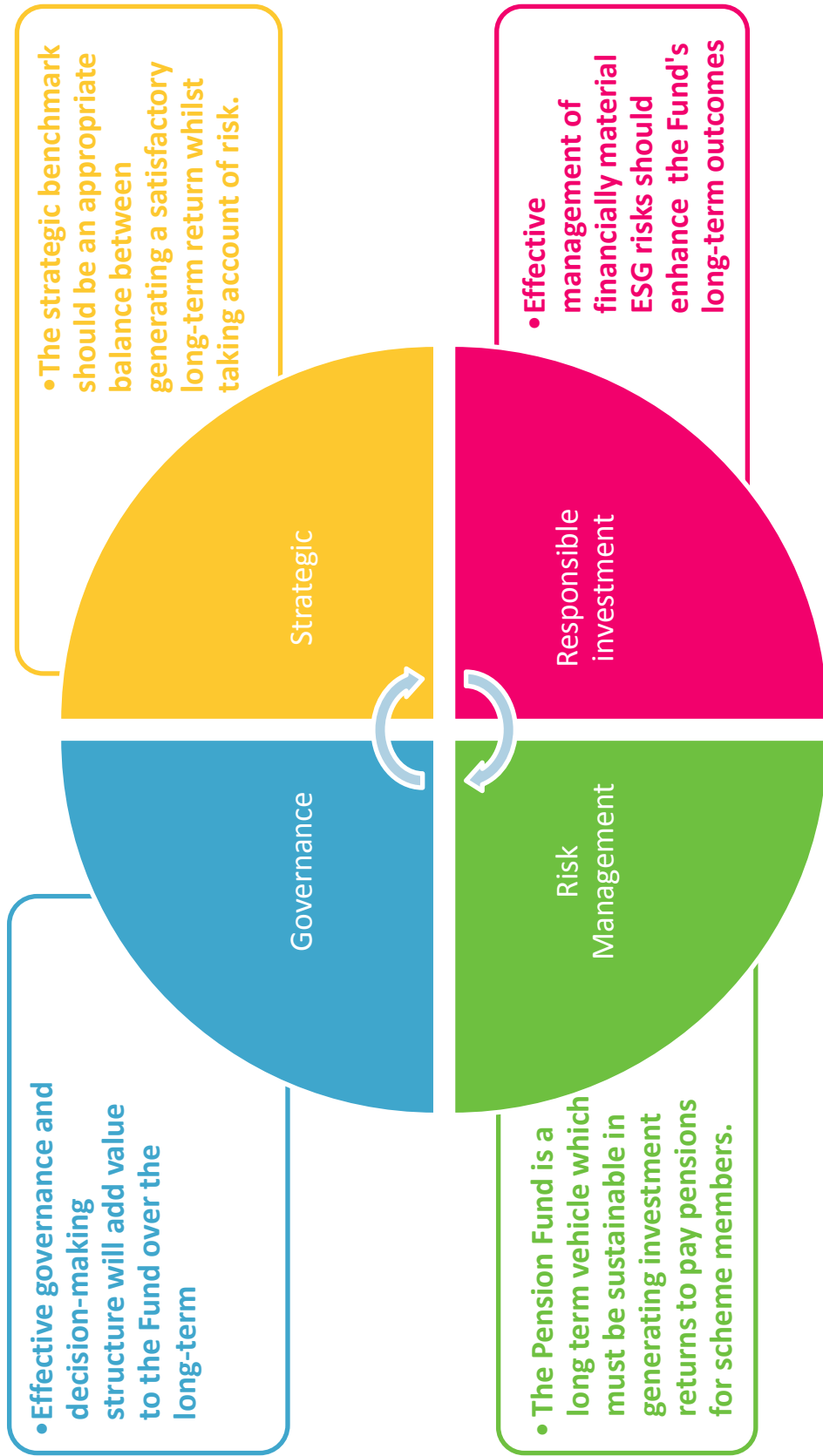
Risk appetite	Responses
In terms of risk appetite, I would rather...	<p>Earn £150 with total certainty      Have a 66% chance of earning £350 and a 33% chance of losing £150</p>
There is a long term risk premium to be earned for investing in equities, credit, property etc. relative to gilts	<p>Disagree      Agree</p>
Locking 10% of the Fund away in an investment for a 10 years (with early exit penalties)	<p>Is not suitable for the Fund, given the inflexibility it brings      Will earn the fund a premium</p>

Managing risk	Responses
If I had £100 to invest, I'd like to spread it (all approaches have the same level of expected return)	 <p>In one asset class, at low cost but more risk</p>
I believe diversification helps mitigate against adverse market conditions	 <p>Disagree</p>
Risks should be prioritised according to size of potential impact (not how likely they are to happen)	 <p>Disagree</p>
How important are fees when considering an investment manager?	 <p>Not at all, net of fee performance is all I care about</p> <p>Very</p>
Generating extra return	Responses
I believe participating in stock lending can improve risk adjusted returns	 <p>Disagree</p>
High conviction active management can add value to returns	 <p>Disagree</p>
The Committee and/or Pool will have the ability to identify successful active managers that can add value over time	 <p>Disagree</p>
I believe Global markets will outperform the UK in the long term	 <p>Disagree</p>
Responsible investment objectives	Responses
The Committee has a good understanding about the nature of and importance of ESG factors	 <p>Disagree</p>
Companies with a clear responsible investment policy are expected to outperform companies without	 <p>Disagree</p>
Long-term sustainable investment returns are an important consideration	 <p>Disagree</p>
Financial considerations should carry more weight than non-financial considerations	 <p>Disagree</p>

# Proposed funding and investment objectives

Objectives	
Key Objectives	<ul style="list-style-type: none"><li>• To provide pension and lump sum benefits for all members, in accordance with LGPS Regulations.</li><li>• Ensure sufficient assets are held to meet the assessed cost of the benefits.</li><li>• The overall funding and investment strategy should maintain an appropriate balance between stable, affordable employer contributions and investment risk.</li></ul>
Governance	<ul style="list-style-type: none"><li>• Maintain a robust, sustainable governance structure that supports the achievement of the objectives.</li></ul>
Funding target	<ul style="list-style-type: none"><li>• A fully funded position on the ongoing funding basis.</li></ul>
Investment target	<ul style="list-style-type: none"><li>• Long term strategy to deliver returns in excess of gilts, with an appropriate level of investment risk.</li></ul>

# Headline investment beliefs



# Investment beliefs - governance

## Governance

1. A clear set of investment beliefs can help achieve good governance by providing a framework for all investment decisions.
  2. Effective governance not only ensures appropriate levels of control over the fund but can add value through correct resourcing and improved decision making.
  3. The Committee supports medium to long term investing as a means of enhancing returns, and believe investment decisions should be assessed over an appropriate time scale.
  4. The Committee view long-term as typically being greater than 15 years, medium-term typically being between 3-15 years and short-term being less than 3 years.
  5. Pooling presents an opportunity to access best in class investments at a lower cost. Such opportunities should always be assessed alongside the strategic asset allocation of the fund for suitability.
  6. Committee members and staff at the ACCESS pool must have the correct level of skills and investment knowledge to understand the level of risk in the investment portfolio.
  7. Manager selection should be delegated to the ACCESS pool and the Committee aim to have a good working relationship with the ACCESS pool.
8. External advice from parties such as an investment consultant helps planning, risk management and decision making.



# Investment beliefs - strategy

## Strategy

1. The strategic benchmark should be 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.
  2. Strategic asset allocation is the most important component of decision making and it is here that the optimum risk and return profile should be designed and monitored regularly, ensuring managers and mandates remain appropriate for the Fund.
  3. The Fund's high level investment strategy and asset allocation should be set by using asset liability modelling in conjunction with each triennial actuarial valuation.
  4. Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.
  5. Investors are rewarded for illiquidity in private markets. Future liquidity needs must be assessed at each review of asset allocation combined with cash flow projections from the fund actuary.
  6. High conviction active management can improve value over the long term net of fees but it is not guaranteed.
7. Global markets are likely to outperform domestic markets in the long term.

# Investment beliefs - risk

## Risk management

1. Adopt a strategy to generate sufficient returns to keep the cost of new benefits accruing reasonable and maintain a balance of stable employer contributions and investment risk.
2. Risk should be employed efficiently with a view to generating a required level of risk adjusted return. While risk should be rewarded in the long term current market conditions should also be a consideration.
3. Appropriate diversification reduces the overall level of dependence on any particular market or asset class and helps manage volatility, particularly in respect of equity markets.
4. The Committee believes that it is appropriate to be aware of potential downside risks and consider the role of low risk matching assets within the strategy
5. Foreign currency exposure is part of managing a global portfolio of investments. There is no strategic hedging of currency exposure from volatile asset classes such as equities as the Fund believes this to be of limited benefit to long term investment returns.
6. Pooling represents significant risk to the Fund and decisions made should aim to minimise this risk where possible.
7. Transitions between managers and asset classes can result in considerable transaction costs and market risks. It is important such transitions are carefully managed the Fund aims to have this managed by the ACCESS pool.

# Investment beliefs - RI

## Responsible Investment

1. The Pension Fund is a long term investor and the investments should be able to generate sustainable returns to pay pensions for scheme members. Environmental, Social and Governance (“ESG”) issues can have a material impact on the long term performance of its investments.
2. The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations carry the same weight as non-financial considerations.
3. Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.
4. Responsible ownership of companies benefits long term asset owners. Companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.
5. Once pooled the Fund will work closely with ACCESS on stewardship and engagement issues including ESG issues and voting rights.

Thank you