



## PAPER C

Purpose: For Decision

# Committee report

Committee	<b>PENSION FUND COMMITTEE</b>
Date	<b>11 JANUARY 2019</b>
Title	<b>INVESTMENT STRATEGY STATEMENT UPDATE 2019</b>
Report of	<b>TECHNICAL FINANCE MANAGER</b>

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### EXECUTIVE SUMMARY

1. This report presents updates to the investment strategy statement (ISS) for the Isle of Wight Pension Fund (the fund) to take into account recent work in reviewing and updating the fund's investment and funding objectives and beliefs.
2. A full review of the ISS will be undertaken as part of the work on the forthcoming triennial valuation, at 31 March 2019.
3. Members are asked to review the revisions to the ISS and agree the proposed changes made. Once agreed, the statement of revisions to the ISS will be published on the fund's website.

### BACKGROUND

4. Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 regulations) sets out the requirement for administering authorities to prepare, maintain and publish a written Investment Strategy Statement (ISS).
5. The ISS should set out how the fund addresses each of the objectives included in the 2016 regulations, namely:
  - the requirement to invest fund money in a wide range of instruments.
  - the assessment of the suitability of particular investments and types of investment.
  - the approach to risk, including the ways in which risks are to be measured and managed.
  - the approach to pooling investments, including the use of collective investment vehicles.
  - policies on how social, environmental or corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments.

6. The fund's current ISS was adopted by the committee at its meeting on 3 March 2017, following the completion of the previous triennial valuation. The ISS was prepared by the fund's then investment consultants, Mercer Limited. The committee agreed that the statement would only be reviewed and updated as part of the next triennial valuation, unless the strategy changed significantly before that.
7. At the development session held after the pension fund committee meeting on 14 September 2018, committee and board members began to review and update the fund's funding and investment beliefs and objectives. The results of that workshop will have been discussed earlier on the current agenda.
8. The ISS has been updated to reflect those revised investment objectives and beliefs, to reflect more detail in the consideration of risks in light of those revised objectives and beliefs, and to update the fund's involvement with the ACCESS pool.
9. A summary statement of changes made to the ISS is included as Appendix 1 to this report, with the revised Investment Strategy Statement presented in full as Appendix 2.
10. There are no proposed changes at this stage to the fund's statements on environmental, social and corporate governance (ESG) policy, or its policy on voting rights. These will be reviewed over the forthcoming year, as part of the review of the fund's investment strategy, including its strategic asset allocation.
11. It is expected that the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) will be issuing guidance on responsible investment (RI), which is likely to cover a templated narrative on ESG considerations to include within the ISS, a checklist to measure funds' policies against the legal framework and best practice, and signposts to guidance, information and best practice examples.
12. The planned review of the fund's ESG and RI policies, including its compliance with the UK Stewardship Code, will be designed to reflect the SAB guidance once it is issued.

## STRATEGIC CONTEXT

13. 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, in accordance with the Local Government Pension Scheme (LGPS) regulations and statutory provisions.
14. The committee aims to fund the fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing.

## CONSULTATION

15. Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 states that the administering authority should consult such persons as it considers appropriate as to the proposed contents of its investment strategy.
16. At the committee meeting in March 2017 when the current investment strategy statement was adopted, it was agreed that the Isle of Wight Pension Board would be consulted in any changes made to the ISS.
17. As the changes currently proposed to the ISS reflect amendments to the fund's investment objectives and beliefs, which were formulated at a development session attended by pension board members as well as committee members, it is considered that sufficient consultation has been undertaken at this stage.
18. During the forthcoming triennial valuation process, which will include a full review of the fund's investment strategy, including its strategic asset allocation, the pension board will be more actively involved in the process.

## FINANCIAL / BUDGET IMPLICATIONS

19. The proposed revisions to the Investment Strategy Statement have been drafted by the fund's investment consultants, Hymans Robertson LLP, based on the outcome of the development session which Hymans facilitated on 14 September 2018. The costs for both the development session and the ISS amendments are being charged to the Pension Fund budget and have no impact on the council's budget.

## LEGAL IMPLICATIONS

20. Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 sets out the requirement for administering authorities to prepare, maintain and publish a written Investment Strategy Statement (ISS).
21. The regulations also set out the contents of the ISS, and the process by which it should be reviewed and revised, and how such amendments should be consulted upon.
22. The administering authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

## EQUALITY AND DIVERSITY

23. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics

are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

24. There are no implications on any of the protected characteristics arising from the proposed changes to the Investment Strategy Statement.

### OPTIONS

25. Members are asked to consider the proposed changes to the Investment Strategy Statement in light of the outcomes from the development session and discussion and agreement of the investment objectives and beliefs.
26. Option 1: The committee agrees the proposed changes to the Investment Strategy Statement, in advance of a full review of the strategy as part of the triennial valuation process and approves the revised statement of revisions for publication on the fund's website.
27. Option 2: The committee does not accept the proposed changes and defers any revision to the Investment Strategy Statement until the full review is completed as part of the triennial valuation process.

### RISK MANAGEMENT

28. The fund has already published an Investment Strategy Statement on its dedicated website, which was adopted following the March 2016 triennial valuation. The published statement is fully compliant with the regulations.
29. The ISS contains details of the principle investment risks facing the fund and sets out the fund's approach to managing these risks and the mitigating actions in place.
30. These risks, controls and mitigating actions will be reviewed and revised again as part of the full review of the ISS during the forthcoming triennial valuation process.

### EVALUATION

31. The investment strategy and strategic asset allocation contained within the published Investment Strategy Statement have not changed as a result of this review, so there is no requirement under the regulations to publish a revised statement.
32. As the fund has recently undertaken a review of its funding and investment objectives and beliefs, which provide greater clarity on the investment governance of the fund, it is considered beneficial to publish a revised statement in advance of the full review, to reflect the most up to date position.
33. If the committee does not accept the changes, the ISS will be reviewed as part of the triennial valuation process, and an updated statement will be approved and published at that stage.

## RECOMMENDATION

34. Option 1: The committee agrees the proposed changes to the Investment Strategy, in advance of a full review of the strategy as part of the triennial valuation process and approves the revised statement of revisions for publication on the fund's website

## APPENDICES ATTACHED

35. [Appendix 1: Statement of Changes Made to the Investment Strategy Statement](#)
36. [Appendix 2: Draft Investment Strategy Statement January 2019.](#)

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