



Committee report

Committee	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	2 SEPTEMBER 2020
Title	INVESTMENT STRATEGY WORKPLAN
Report of	TECHNICAL FINANCE MANAGER

EXECUTIVE SUMMARY

1. This report sets out proposals for the future workplan of the committee in completing the review of the fund's investment strategy.
2. A representative of the fund's investment consultants, Hymans Robertson LLP, will attend the committee meeting to present this report and provide further information.
3. Committee members are asked to note the future work plan and agree to the proposed workshops to progress the implementation of the revised strategy.

BACKGROUND

4. At the committee meeting on 22 July 2020, members agreed to revisions to the fund's strategic asset allocation, as detailed below.

Asset class:	Current allocation %	Change %	New allocation %
UK Equity	22.5	-10.0	12.5
Global Equity	32.5	+5.0	37.5
Diversified Growth	15.0	-5.0	10.0
Total Growth	70.0	-10.0	60.0
Property	8.0	-	8.0
Infrastructure	0.0	+5.0	5.0
Private Debt	0.0	+5.0	5.0
Total Income	8.0	+10.0	18.0
Corporate Bonds	22.0	-	22.0
Total Protection	22.0	-	22.0
TOTAL FUND	100.0	-	100.0

5. The paper from Hymans Robertson, at appendix 1 to this report, sets out the timeline for work to be undertaken in implementing the above changes. The report also lists the decisions agreed by the committee at the 22 July meeting.

6. In summary, three key areas of work are proposed over the next six months:
 - (a) Transition from growth assets (UK equity and diversified growth) into income assets (private debt and infrastructure).
 - (b) Focus on responsible investment and environmental, social and governance considerations.
 - (c) Rebalancing of growth assets to provide higher global focus to equities.
7. Longer term activities include identifying a suitable protection asset fund manager within the ACCESS pool, and carrying out the agreed review of the fund's current property allocation once markets have settled following the current pandemic crisis.
8. In addition to this activity, fund officers will continue to work on rebalancing the fund's current strategic asset allocation, as agreed at the July committee meeting, and transitioning the UK equity holdings into the ACCES pool.
9. Reports on progress on all these activities will be brought to future committee meetings.

STRATEGIC CONTEXT

10. 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. The committee aims to operate 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 employer to meet the cost of future benefits accruing.
11. The fund has agreed the following investment beliefs, which underpin the strategic modelling exercise being undertaken:
 - (a) 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.
 - (b) 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.
 - (c) 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.
 - (d) Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.
 - (e) 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.

- (f) High conviction active management can improve value over the long-term net of fees, but it is not guaranteed.
- (g) Global markets are likely to outperform domestic markets in the long term.

FINANCIAL / BUDGET IMPLICATIONS

- 12. The cost of the review of the investment strategy will be borne directly by the pension fund, and will have no impact on the council's budget. The cost is consistent with the value included in the pricing considerations when the investment consultancy services contract was procured in 2018.
- 13. The review of the investment strategy forms part of the outcome of the triennial valuation, a planning exercise for the fund, to assess the monies needed to meet the benefits owed to its members as they fall due. It estimates the cost of future liabilities for the members of the fund, and allows the fund to determine the appropriate investment strategy and employer contributions required to ensure that there are sufficient assets to meet those liabilities as they fall due.
- 14. Setting an appropriate investment strategy forms part of this exercise.

LEGAL IMPLICATIONS

- 15. Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required each administering authority to prepare, maintain and publish a written statement of investment principles. With effect from 1 April 2017, following amendments to the 2009 regulations, the statement of investment principles was replaced by an investment strategy statement (ISS).

EQUALITY AND DIVERSITY

- 16. 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.
- 17. Implementation of the strategic investment asset allocation has no implications for any of the protected characteristics.

RECOMMENDATION

- 18. Members are asked to note the future work plan and agree to the proposed workshops to progress the implementation of the revised strategy.

APPENDICES ATTACHED

- 19. [Appendix 1](#) - Investment strategy work plan and timeline 2020/2021

BACKGROUND PAPERS

20. Isle of Wight Pension Fund Committee 22 July 2020: Investment strategy review stage 2

<https://www.iow.gov.uk/Meetings/committees/IW%20Pension%20Fund/22-7-20/PAPERF.pdf>

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