



Committee Report

ISLE OF WIGHT COUNCIL

Committee	ISLE OF WIGHT PENSION COMMITTEE
Date	22 NOVEMBER 2023
Title	INVESTMENT STRATEGY IMPLEMENTATION UPDATE
Report of	PENSION FUND MANAGER

1. Executive Summary

- 1.1 At its September 2023 meeting, the committee agreed the process by which the fund managers for the increased allocations to both private debt and infrastructure would be selected.
- 1.2 Selection panels were held on 16 October 2023 for private debt and 30 October 2023 for infrastructure.
- 1.3 This report presents the outcomes of the two selection panels, and provides more information on the next steps to the implementation of those investments. A representative from Hymans Robertson LLP will be attending the committee meeting to present this report.
- 1.4 The September 2023 committee meeting also agreed to progress the transition of the fund's fixed income portfolio into the ACCESS pool. A verbal update on the progress of that transition will be provided at the meeting.

2. Recommendation(s)

- | |
|--|
| <ol style="list-style-type: none">2.1 In relation to private debt:<ol style="list-style-type: none">2.1.1 That the decision of the selection panel to appoint Pantheon be agreed.2.1.2 That the Isle of Wight Pension Fund makes a commitment to the Pantheon – Senior Debt Secondaries III (GBP) fund.2.1.3 That the Isle of Wight Pension Fund makes a commitment of £65 million to this strategy, based on the updated cash flow analysis to achieve the desired target allocation. |
|--|

2.1.4 That the committee note the progress made towards commissioning a legal review of the fund documentation.

2.2 In relation to infrastructure:

2.2.1 That the decision of the selection panel to appoint JP Morgan be agreed.

2.2.2 That the Isle of Wight Pension Fund makes a commitment to the JP Morgan Infrastructure Investments Fund.

2.2.3 That the Isle of Wight Pension Fund makes a commitment of £30 million to this strategy in 2024 and considers a further commitment of approximately £40 million in 2028/29 to achieve the desired target allocation, based on updated analysis.

2.2.4 That the Isle of Wight Pension Fund opts for the GBP-hedged share class of the JP Morgan Infrastructure Investments Fund.

2.2.5 That officers are authorised to commission a legal review of the selected fund's documentation and commission taxation advice.

2.2.6 That Hymans Robertson be instructed to provide a transition plan and assess the availability of fund units on the secondary market (which sometimes trade at a discount if they are still in the lock-up period).

2.3 In relation to fixed income:

2.3.1 That the verbal update on the progress of the transition of the fund's fixed income holdings into the ACCESS Sterling Core Bond Fund (Royal London) is noted.

2.3.2 That a report on the completion of this activity be provided to the next committee meeting.

3. Confidential / Exempt Items

3.1 While this covering report is not considered exempt from publication, the two appendices are deemed to be exempt from disclosure by virtue of paragraph 3 of part 1 of schedule 12A of the Local Government Act 1972 (as amended) as it "relates to financial or business affairs of any particular person", (including the authority holding that information). The public interest in maintaining confidentiality outweighs the public interest in disclosing it. Disclosing the information could place the council at risk of legal challenge from individuals or other bodies identified in the report.

4. Private Debt

4.1 Appendix 1 to this report contains a report from Hymans Robertson on the private debt selection panel process and outcome, and recommendations for consideration.

- 4.2 The selection panel met on 16 October 2023. Members of the panel were Cllrs Jarman, Churchman, Brading and Lucioni, along with the scheme member representative on the committee, the Director of Finance, the Pension Fund Manager and the Pension Fund and Treasury Management Accountant. The panel was supported by two representatives from Hymans Robertson.
- 4.3 Three fund managers were invited to present to the panel, and it was unanimously agreed that the Pantheon – Senior Debt Secondaries III (GBP) fund was the preferred solution.
- 4.4 Subsequent to the panel meeting, fund officers and Hymans Robertson have engaged with Pantheon to progress the allocation. It had been agreed that the Isle of Wight Pension Fund will work towards completion of the necessary documentation to enable it to participate in the 20 December 2023 close for the fund, with the initial investment following early in calendar year 2024.
- 4.5 The fund has carried out a mini-competition for legal advice to support the review of the investment fund documentation, including completion of required tax documentation, using the National LGPS Framework for Legal Services. An update on this procurement will be provided at the committee meeting.

5. Infrastructure

- 5.1 Appendix 2 to this report contains a report from Hymans Robertson on the infrastructure selection panel process and outcome, and recommendations for consideration.
- 5.2 The selection panel met on 30 October 2023. Members of the panel were Cllrs Jarman and Churchman, along with the scheme member representative on the committee, the Director of Finance, the Pension Fund Manager and the Pension Fund and Treasury Management Accountant. The panel was supported by two representatives from Hymans Robertson.
- 5.3 Three fund managers were invited to present to the panel, and it was unanimously agreed that the JP Morgan Infrastructure Investment Fund was the preferred solution.
- 5.4 No further engagement has been held with the preferred manager, pending the decisions of this committee meeting.

6. Fixed Income

- 6.1 Fund officers have been working with Hymans Robertson, Northern Trust (as custodian to the fund), Schroders (incumbent manager) and Waystone (ACCESS pool operator) to progress the transition of the fixed income portfolio.
- 6.2 A verbal update on this progress will be provided at the committee meeting.

7. Corporate Priorities and Strategic Context

- 7.1 There is nothing contained in this report which directly contributes to the priorities contained in the [Corporate Plan 2021 – 2025](#).

Pension Fund Strategic Aims

- 7.2 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.
- 7.3 The fund has also agreed the following objectives and beliefs, which are supported by information in this report:

Governance

- 7.3.1 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.
- 7.3.2 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.
- 7.3.3 External advice from parties such as an investment consultant helps planning, risk management and decision making.

Strategy

- 7.3.4 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.
- 7.3.5 Investors are rewarded for illiquidity in private markets.

Risk Management

- 7.3.6 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.
- 7.3.7 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

8. Financial / Budget Implications

- 8.1 The costs of the support, advice and guidance from Hymans Robertson in respect of the implementation of the revised investment strategy are consistent with the values included in the pricing considerations when the investment consultancy services contract was procured in 2018.
- 8.2 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.

9. Legal Implications

- 9.1 The Isle of Wight Council is the administering authority for the Isle of Wight Council Pension Fund. An administering authority is defined in the Local Government Pension Scheme Regulations 2013 as “a [local authority] required to maintain a pension fund under the local government pension scheme regulations”.
- 9.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the investment regulations) set out the parameters under which administering authorities should formulate its investment strategy, in accordance with its duties in relation to diversification, on the basis of proper investment advice, and taking account of the level of risk and return.
- 9.3 Section 9 of the investment regulations states that the authority can appoint investment managers to manage investments on its behalf, provided it believes that the manager’s ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it; and that proper advice has been taken in relation to the appointment and the terms on which it is made.

10. Equality And Diversity

- 10.1 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.
- 10.2 There are no implications for any of the protected characteristics arising from items covered in the report.

11. Risk Management

- 11.1 The key risks associated with investment in each of the asset classes are included as part of the detailed reports from Hymans Robertson, attached as appendices to this report.

12. Appendices Attached

- 12.1 Appendix 1: Hymans Robertson report: Private debt – selection process and recommendations (CONFIDENTIAL)
- 12.2 Appendix 2: Hymans Robertson report: Infrastructure Update November 2023 (CONFIDENTIAL)

Contact Point: Joanna Thistlewood, Pension Fund Manager, ☎ 821000
e-mail jo.thistlewood@jow.gov.uk

CHRIS WARD
Director of Finance

COUNCILLOR CHRIS JARMAN
*Chairman of the Isle of Wight
Pension Fund Committee*