



Purpose: For Decision

Committee report

Committee **ISLE OF WIGHT PENSION FUND COMMITTEE**

Date **28 OCTOBER 2020**

Title **INVESTMENT STRATEGY UPDATE – PRIVATE DEBT AND INFRASTRUCTURE PROCUREMENT**

Report of **TECHNICAL FINANCE MANAGER**

EXECUTIVE SUMMARY

1. This report continues the implementation of the Isle of Wight Pension Fund's investment strategy by setting out the process by which one or more new investment solutions will be selected to deliver the agreed strategic allocations to private debt and infrastructure.
2. Members are asked to agree the process, including the timetable for manager presentations of the proposed investment solutions and appointment.

BACKGROUND

3. 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

4. At the meeting on 2 September 2020, the committee agreed to progress the transition from growth assets into income assets as the first stage of the implementation of the revised strategy. A development session following the committee meeting provided greater insight into the two new asset classes – private debt and infrastructure – along with information about the investment process for each class.
5. Members agreed at that committee meeting that a report would be brought to this meeting on the process for the selection of suitable investment solutions to support the fund’s investment in these two asset classes.

PROCUREMENT PROCESS

6. In establishing investments in both private debt and infrastructure, it is proposed that the committee selects existing pooled funds to invest in rather than appointing one or more managers to invest directly in alternative assets.
7. Regulation 10(1)(e) of the public contracts regulations 2015 provides exemption from a full European Union procurement process, specifically where the public service contract relates to “financial services in connection with the issue, sale, purchase or transfer of securities or other financial instruments”.
8. As the fund is seeking to invest in one or more investment solution to deliver the allocations via existing pooled funds, rather than direct holdings of assets, the proposed appointment method fulfils the requirements of the regulations.
9. The Pension Committee’s terms of reference, at Article 11 to the council’s [Constitution](#), state that the committee has responsibility for “dealing with all matters arising that relate to the Isle of Wight Pension Fund, including the management and investment of the fund” including “appointing and regularly monitoring the performance of investment managers”.
10. Hymans Robertson LLP, as investment consultant to the fund, will manage the process and support the committee in making a selection. The proposed process and timetable is set out below.

Process	Timetable
Committee agrees to proceed with allocations into private debt and infrastructure	2 September 2020
Officer discussions to confirm procurement process	September 2020
Hymans present a shortlist of three or four managers for each asset class with details on the funds available for the committee to consider as part of the selection process	28 October 2020
Committee agrees selection panel and dates for selection process	28 October 2020
The selection panel receives presentations from each private debt manager on their proposed investment solution and, following interview, makes a final selection	6 November 2020

Hymans provide due diligence note on selected private debt fund, and selection ratified by full committee	25 November 2020
The selection panel receives presentations from each infrastructure manager on their proposed investment solution and, following interview, makes a final selection	4 December 2020
Hymans provide due diligence note on selected infrastructure fund, and selection ratified by full committee	27 January 2021

11. It is proposed that the selection panel should be made up of committee members (a minimum of three elected members), the Director of Finance, the Technical Finance Manager and the Pension Fund and Treasury Management Accountant, supported by a representative of Hymans Robertson.
12. Calendar invitations to the proposed selection days, which will be held virtually on 6 November and 4 December, were circulated to committee members on 24 September and 1 October respectively. An update on the composition of the panels will be provided at this meeting.
13. The selection days will comprise:
 - a 30-minute introductory briefing from Hymans;
 - three or four 45-minute presentation slots (30-minute manager presentation, 15-minute panel questions);
 - a 15-minute discussion between each manager presentation;
 - a 30-minute break after the second presentation;
 - a 30-minute decision discussion.

Based on the above proposal, it is expected that the selection days will start at 10am, and will be completed by 3.30pm at the latest.
14. A separate report from Hymans Robertson will be presented to the committee at this meeting, setting out the shortlisted managers to be invited to make presentations to the selection panel.

STRATEGIC CONTEXT

15. 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.
16. The fund has agreed the following investment beliefs, which underpin the strategic modelling exercise being undertaken:
 - The strategic benchmark should be consistent with the committee's views on the appropriate balance between generating a satisfactory long-term return on

investments while taking account of market volatility and risk and the nature of the fund's liabilities.

- 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.
- 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.
- Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.
- 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.
- High conviction active management can improve value over the long-term net of fees, but it is not guaranteed.
- Global markets are likely to outperform domestic markets in the long term.

FINANCIAL / BUDGET IMPLICATIONS

17. 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.
18. 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.
19. Setting an appropriate investment strategy forms part of this exercise.

LEGAL IMPLICATIONS

20. The council, as administering authority, has to operate within the relevant statutory provisions related to the Local Government Pension Scheme.
21. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the investment regulations) set out the parameters under which an administering authority 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.

22. 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.
23. The Pension Committee's terms of reference, at Article 11 to the council's [Constitution](#), state that the committee has responsibility for "dealing with all matters arising that relate to the Isle of Wight Pension Fund, including the management and investment of the fund" including "appointing and regularly monitoring the performance of investment managers".
24. Regulation 10(1)(e) of the Public Contracts Regulations 2015 provides exemption from a full European Union procurement process, specifically where the public service contract relates to "financial services in connection with the issue, sale, purchase or transfer of securities or other financial instruments".
25. As the pension fund is seeking to invest in one or more investment solution to deliver the allocations via existing pooled funds, rather than direct holdings of assets, the proposed appointment method fulfils the requirements of the regulations.

EQUALITY AND DIVERSITY

26. 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.
27. Determining the process by which investment managers are selected and appointed has no implications for any of the protected characteristics.

RISK MANAGEMENT

28. In agreeing changes to the strategic investment asset allocation, the fund is addressing the need identified in its funding strategy statement to balance the need to increase employer contributions and generate additional investment returns to ensure the fund has sufficient assets to pay its future liabilities in the long term.
29. The committee members have undertaken a development session, facilitated by investment managers with expertise in the two new asset classes under consideration, to increase their understanding of the different asset classes. The decision to agree a strategic allocation to infrastructure and private debt has been entered into based on this increased understanding.
30. By using the services of its investment consultants to undertake the shortlisting of managers to invest in these asset classes on behalf of the fund, the committee can ensure that the managers identified have the necessary ability and practical experience to make the required investment decisions.

31. By consulting at an early stage with the council's procurement team, officers have ensured that the appropriate procurement route is followed, minimising the risk of non-compliance with procurement regulations.

RECOMMENDATION

32. To agree to the process and timetable for the procurement, selection and appointment of fund managers to deliver the selected investment solutions for private debt and infrastructure.

BACKGROUND PAPERS

33. Isle of Wight Pension Committee meeting 14 February 2020, Paper F: Investment Strategy Modelling.
https://www.iow.gov.uk/Meetings/committees/IW%20Pension%20Fund/14-2-20/PAPER_F.pdf
34. Isle of Wight Pension Committee meeting 22 July 2020, Paper F: Investment Strategy Asset Allocation.
<https://www.iow.gov.uk/Meetings/committees/IW%20Pension%20Fund/22-7-20/PAPERF.pdf>
35. Isle of Wight Pension Committee meeting 2 September 2020, Paper G: Investment Strategy workplan.
<https://www.iow.gov.uk/Meetings/committees/IW%20Pension%20Fund/2-9-20/PAPERG.pdf>

Contact Point: Jo Thistlewood, Technical Finance Manager, ☎ 821000
e-mail jo.thistlewood@iow.gov.uk

CHRIS WARD
*Director of Finance
and Section 151 Officer*

COUNCILLOR ADRIAN AXFORD
*Chairman of the Isle of Wight
Pension Fund Committee*