



Committee Report

ISLE OF WIGHT COUNCIL

Meeting	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	14 FEBRUARY 2024
Title	INVESTMENT STRATEGY IMPLEMENTATION UPDATE
Report of	PENSION FUND MANAGER

Executive Summary

1. At its November 2023 meeting, the committee agreed the appointment of managers and the total commitment to the new strategy asset allocations to both private debt and infrastructure. At that meeting the committee also received an update on the progress of the transition of the funds Fixed Income portfolio into the ACCESS pool.
2. This report provides an update on the progress of the implementation of those decisions, for the committee's information.

Recommendation

3. That the completion of the transfer of the fund's fixed income portfolio is noted.
4. That the acceptance of the fund's commitment to the Pantheon Senior Debt Secondaries III (GBP) Fund is noted.
5. That progress towards the completion of documentation for the fund's investment in the JP Morgan Infrastructure Investment Fund is noted.

Background

Fixed income

6. At its November 2023 meeting, the committee noted the progress made towards the transfer of the fixed income portfolio from a direct holding with Schroder Investment Management Limited to the Royal London Asset Management (RLAM) sub-fund within the ACCESS pool.

7. The transfer of the portfolio was completed on 18 December 2023.
 - (a) Units in the Schroder fund were sold for a value of £110.1 million on 8 December 2023.
 - (b) Sale proceeds were received by Northern Trust (NT) (local custodian) on the same day and were transferred within the NT system on 12 December 2023. Interest of £33 thousand was earned during this period (approximately 2.8% per annum).
 - (c) Funds were transferred from NT to Waystone (ACCESS operator) on 13 December 2023.
 - (d) Waystone procured units in the RLAM fund on 14 December 2023 for a purchase cost of £109.7 million, incurring trade costs of £362,107.69, equating to 0.33% of the purchase price.
 - (e) The purchase of units by RLAM was not completed until 18 December 2023. The final contract note, confirming the actual price of the units purchased, is still outstanding.
8. The delay in the completion of the purchase of the units in the RLAM sub-fund arose due to an issue of miscommunication around the clearance of funds for purchase. A verbal update on this matter will be provided at the meeting.

Private debt

9. At its November 2023 meeting, the committee approved the fund's commitment of £65 million to the Pantheon Senior Debt Secondaries III (GBP) fund and noted the appointment of Gowlings WLG to carry out the legal review of the investment documentation.
10. Following the committee meeting, work commenced with Pantheon and Gowlings to complete the on-boarding documentation and to agree the terms of the subscription agreement and side letter.
11. Documentation was signed by the fund on 22 December 2023 based on the draft side letter terms at that date, and authority was given to Gowlings to finalise the terms during the festive period, when officers of the funds were on annual leave.
12. The documentation was completed on 29 December 2023, and formal confirmation of Pantheon's acceptance of the Isle of Wight Pension Fund's commitment as of that date was received on 12 January 2024.
13. At the time of writing this report, no capital calls have been received for this investment.

Infrastructure

14. At its November 2023 meeting, the committee approved the fund's total commitment of £70 million to the JP Morgan Infrastructure Investment Fund (IIF) and noted that work on completion of that investment had yet to start.
15. Due to the amount of work required for the Private Debt investment in December 2023, work on this did not begin until January 2024.

16. Initial conversations with JP Morgan have identified that the next close date for the IIF is 1 April 2024, with completed documentation for that being required by 28 February 2024. If this date is missed, the next close will be 1 July 2024.
17. Hymans Robertson have identified an opportunity for the fund to purchase units in the IIF through the secondary market – an existing investor (not LGPS) is seeking to sell its current investment in the fund through a broker, which could offer a significant discount on the purchase price, although requiring additional negotiations on the purchase agreement. It is anticipated that this secondary purchase could be completed in line with the earliest close date noted above.
18. Officers have authorised Hymans to commence discussions with the broker on the terms of the agreement and the discount offered. If the terms of the agreement are not suitable, the fund can withdraw from those negotiation, and still fulfil its commitment through direct investment with JP Morgan. Early indications are that a discount of between 1.5% and 3% (£260,000 - £710,000) may be available through the secondary market, subject to negotiation and agreement with the seller.
19. As in both instances documentation is required to be finalised by 28 February 2024, work has commenced on the completion of on-boarding documentation from JP Morgan.
20. The council's procurement team have confirmed that a direct award from the National LGPS Framework for the legal review of documentation can be made to Gowlings WLG, based on the work that firm completed for the private debt investment. This review will include the subscription agreement, negotiation of a side letter seeking specific terms if required, and a review of the secondary market agreement.
21. An update on progress towards the completion of documentation will be provided at the committee meeting.

Corporate Priorities and Strategic Context

22. There is nothing contained in this report which directly contributes to the priorities contained in the Isle of Wight Council [Corporate Plan 2021 – 2025](#).

Pension Fund Strategic Aims

23. 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.
24. The fund has also agreed the following objectives, which are supported by information in this report.

Governance

- (a) 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.
- (b) 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.
- (c) External advice from parties such as an investment consultant helps planning, risk management and decision making.

Strategy

- (d) 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.
- (e) Investors are rewarded for illiquidity in private markets.

Risk Management

- (f) 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.
- (g) 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.

Financial / Budget Implications

- 25. In respect of the fixed income portfolio transfer, the fund incurred investment manager costs of £362,107, and investment consultancy fees of approximately £20,000. These costs were offset to interest earned on cash held with the custodian of £33,778.
- 26. The net cost in respect of this transaction was £348,328, approximately 0.32% of the cost of units in the RLAM fund.
- 27. In respect of the private debt investment close, the fund incurred legal costs of £30,000.
- 28. Costs in respect of the infrastructure investment close have yet to be determined. These could be offset by the discount in purchase price achieved through the secondary market. Further information on these costs will be provided at a future meeting of the committee.

Legal Implications

29. 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”.
30. 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.
31. 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.
32. External legal advice on the private debt investment subscription agreement was provided by Gowlings WLG. Confirmation of the legal advisers for the review of the infrastructure investment documentation will be provided at the committee meeting.

Equality and Diversity

33. 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.
34. There are no implications for any of the protected characteristics arising from items covered in the report.

Risk Management

35. The risks associated with each asset class in which the pension fund is invested are considered as part of the strategic investment allocation decisions and have been reported to each committee meeting where these matters are discussed.
36. The risks specific to each investment agreement are reviewed by the pension fund’s legal advisers.

Background Papers

37. Isle of Wight Pension Fund Committee, 6 September 2023:
<https://iow.moderngov.co.uk/ieListDocuments.aspx?CId=175&MId=1586&Ver=4>
(a) Item 14b: Fixed Income Transition to ACCESS Pool (confidential)

(b) Item 14c: Manager selection process for increased Private Debt and Infrastructure Allocations (confidential)

38. Isle of Wight Pension Fund Committee, 22 November 2023 Item 10: Investment Strategy Implementation

<https://iow.moderngov.co.uk/documents/s13168/ITEM%2010%20-%20Investment%20Strategy%20Implementation.pdf>

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

CHRIS WARD
*Director of Finance
and Section 151 Officer*

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