



Committee Report

ISLE OF WIGHT COUNCIL

Meeting	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	14 FEBRUARY 2024
Title	INVESTMENT STRAETGY STATEMENT
Report of	PENSION FUND MANAGER

Executive Summary

1. This report presents updates to the investment strategy statement (ISS) for the Isle of Wight Council Pension Fund (the fund) to take into account the changes to the fund's strategic asset allocations following the results of the 2022 triennial valuation.
2. The fund has already begun work on the implementation of this strategy, as previously presented to the committee. On adoption of the updated ISS, it will be published on the pension fund's website.

Recommendation

- | |
|--|
| <ol style="list-style-type: none">3. The proposed changes to the Investment Strategy Statement are agreed and the revised statement is approved for publication 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:
 - a) a requirement to invest fund money in a wide range of instruments.
 - b) the assessment of the suitability of particular investments and types of investment.
 - c) the approach to risk, including the ways in which risks are to be measured and managed.
 - d) the approach to pooling investments, including the use of collective investment vehicles.
 - e) the policy on how social, environmental or corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments.
 - f) the policy on the exercise of the rights (including voting rights) attaching to investments.
6. The previous version of the ISS was adopted by the committee in March 2021, following the 2019 triennial valuation.
7. During the calendar year 2023, the committee has reviewed and significantly amended its strategic asset allocation, including the introduction of increased allocations to private debt and infrastructure to be funded from the removal of the fund's allocation to diversified growth.
8. 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.
9. There are no changes proposed at this stage to the fund's investment beliefs and objectives, included as appendix a to the ISS. The committee may wish to review and reconfirm these objectives during the next municipal year.

Corporate Priorities and Strategic Context

10. 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

11. 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.

12. Specifically, the fund has agreed the following investment strategy objectives:
- (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.

Consultation

13. 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.
14. Members of the Local Pension Board have been engaged in all the meetings in which the proposed changes to the fund's strategic asset allocation have been discussed and agreed. Further consultation on any changes to the fund's objectives, and the development of the fund's ESG/RI policy will be undertaken in due course.

Financial / Budget Implications

15. The Isle of Wight Council Pension Fund manages investment assets of £728.3 million on 31 December 2023 in diversified portfolios across asset classes and investment managers.
16. The revised Investment Strategy Statement has been drafted by the fund's investment consultants, Hymans Robertson LLP. The costs for this review are consistent with the prices quoted when the contract was awarded in 2018.

Legal Implications

17. 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”.
18. 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).
19. 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.
20. 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

21. 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.
22. There are no implications on any of the protected characteristics arising from the proposed changes to the Investment Strategy Statement.

Options

23. Members are asked to consider the proposed changes to the Investment Strategy Statement in light of the recent work undertaken to amend the fund’s strategic asset allocation.
24. Option 1: The proposed changes to the Investment Strategy Statement are agreed and the revised statement is approved for publication on the fund’s website.
25. Option 2: The proposed changes to the Investment Strategy Statement are not agreed. Further work should be undertaken to update all relevant sections before it is published.

Risk Management

26. The fund's current Investment Strategy Statement, published on its dedicated website, does not reflect the fund's current investment strategy, which has been significantly changed following the work undertaken since the 2022 triennial valuation.
27. The fund is required to publish a revised ISS where there are significant changes.
28. The ISS contains details of the key investment risks facing the fund and sets out the fund's approach to managing these risks and the mitigating actions in place.

Evaluation

29. The investment strategy and strategic asset allocation contained within the published Investment Strategy Statement have changed as a result of this review, so there is a requirement under the regulations to publish a revised statement.
30. The committee has made decisions to implement the revised investment strategy, through its appointment of investment managers to implement the increased allocations to private debt and infrastructure, as well as the transition of the fixed income portfolio into the ACCESS pool.
31. The proposed Investment Strategy Statement reflects those decisions.

Appendices Attached

32. Appendix 1: Statement of Changes Made to the Investment Strategy Statement.
33. Appendix 2: Draft Investment Strategy Statement February 2024.

Background Papers

34. Isle of Wight Council Pension Fund Investment Strategy Statement March 2021.
<https://www.isleofwightpensionfund.org/resources/investment-strategy-statement-2021/>
35. Isle of Wight Pension Fund Committee 24 May 2023 Item 18 Investment Strategy 2023 (confidential paper).
36. Isle of Wight Pension Fund Committee 6 September 2023 Item 14 Investment Strategy 2023 (confidential paper).
37. 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>

38. 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*