

Isle of Wight Council Pension Fund
**INVESTMENT STRATEGY
STATEMENT**
February 2024

1 Document Information

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3 Introduction

This is the Investment Strategy Statement (“ISS”) of the Isle of Wight Council Pension Fund (“the Fund”) which is administered by the Isle of Wight Council (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Isle of Wight Pension Fund Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

This ISS has been designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.

This statement will be reviewed by the Committee at least triennially or more frequently and without delay should any significant change occur. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest, in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund.

4 Investment beliefs and objectives

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 fund 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. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

In order to best achieve these objectives, the Committee has developed a set of investment beliefs which help to inform the investment strategy derived from the decision-making process. The latest investment beliefs are included in Appendix A and are reviewed on a regular basis.

5 Investment strategy and the process for ensuring suitability of investment

As noted above, the Fund's objective is to pay benefits as they fall due, and this requires the build-up of sufficient reserves in advance. The Fund is currently assessed to have a slight surplus in terms of the reserves needed and so the asset strategy is focused on achieving returns in excess of gilts to maintain this position without taking undue risk. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The Committee is responsible for the Fund's asset allocation which is determined via a triennial strategy review as part of the valuation process but is kept under constant review; noting that strategic changes are an evolutionary process.

The triennial review looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due.
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit.
- An analysis of the order of magnitude of the various risks facing the Fund is established in order that a priority order for mitigation can be determined.
- The desire for diversification across asset class, region, sector, and type of security.

In 2022/23, the Fund conducted an asset liability modelling exercise in conjunction with the 2022 actuarial valuation. The Fund's liability data from the valuation was used in the modelling, and the implications of adopting a range of contributions and investment strategies were assessed. The implications for the future evolution of the Fund were considered under a wide range of different scenarios.

The Committee assessed the likelihood of achieving their long-term funding target – which has been defined as achieving a fully funded position within the next 20 years. They also considered the level of downside risk associated with different strategies by identifying the low funding levels which might emerge in the event of adverse experience.

Following this review, it was agreed to increase the strategic allocations to Infrastructure and Private Debt from 5% to 10% each (outlined in the Asset Classes section). Product selection exercises were undertaken for each new asset class in 2023, and the new allocations to Infrastructure and Private Debt will be implemented in 2024 and funded from the Fund's allocation to Diversified Growth.

The Committee also conducted a review of the Fund's UK equity allocation in May 2022 due to concerns regarding the incumbent manager's relatively poor performance and lack of team stability. Blackrock was appointed as Liontrust's (formerly Majedie) replacement, and the mandate was effectively transitioned in 2023.

In 2023 the Committee also reviewed the implementation of the Fund's fixed income allocation in light of Government guidance on asset pooling and available investment solutions through the ACCESS pool. The Committee agreed to move to an ACCESS fixed income solution where the underlying manager is Royal London Asset Management and transitioned assets to this fund in Q4 of 2023.

5.1 Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, infrastructure, alternative debt, and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. The target asset allocation, along with an overview of the role each asset plays in achieving the Fund's objectives is set out in the table below.

Table 1:

Asset class	Allocation %	Allowable ranges %	Role (s) within the strategy
Equity	50.0	+/-6%	Long term growth in excess of inflation.
Property	8.0	+/-4%	Diversification and regular investment income. Returns expected to be inflation sensitive. Exposure to Illiquidity premium.
Infrastructure	10.0	n/a	Returns expected to be inflation sensitive. Diversified source of return and regular income. Exposure to Illiquidity premium.
Private Debt	10.0	n/a	Diversified source of return and regular income. Exposure to Illiquidity premium.
Fixed Income	22.0	+/-4%	Diversified source of return from a range of sources. Some duration exposure. Not specifically income generating.

5.2 Restrictions on investment

In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The 2016 Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved. Therefore, it is not felt necessary to set additional restrictions on investments.

5.3 Investment managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each investment manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the investment managers will maintain diversified portfolios through direct investment or pooled vehicles.

The individual investment manager mandates in which the Fund assets are currently invested (January 2024) are as follows:

Table 2:

Investment Manager	Asset Class	Investment style
Waystone Group (ACCESS pool) (Blackrock)	UK Equity	Active
Waystone Group (ACCESS pool) (Newton)	Global Equity	Active
UBS	Global Equity	Passive
Waystone Group (ACCESS pool) (Baillie Gifford)	Diversified Growth	Active
Schroders	Property	Active
Goldman Sachs	Private Debt	Active
Pantheon *	Private Debt	Active
Partners Group	Infrastructure	Active
JP Morgan *	Infrastructure	Active
Waystone Group (ACCESS pool) (Royal London)	Fixed Income	Active

* The Committee has agreed to make investments to Infrastructure with JP Morgan and Private Debt with Pantheon, but at the time of writing there were no investments yet made to these funds.

6 Risk measurement and management

The Committee assesses risks both qualitatively and quantitatively, with the starting point being the triennial investment strategy review. Risks are considered, understood, and then prioritised accordingly. The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee’s overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund’s approach to managing these risks and the contingency plans that are in place

6.1 Investment risks

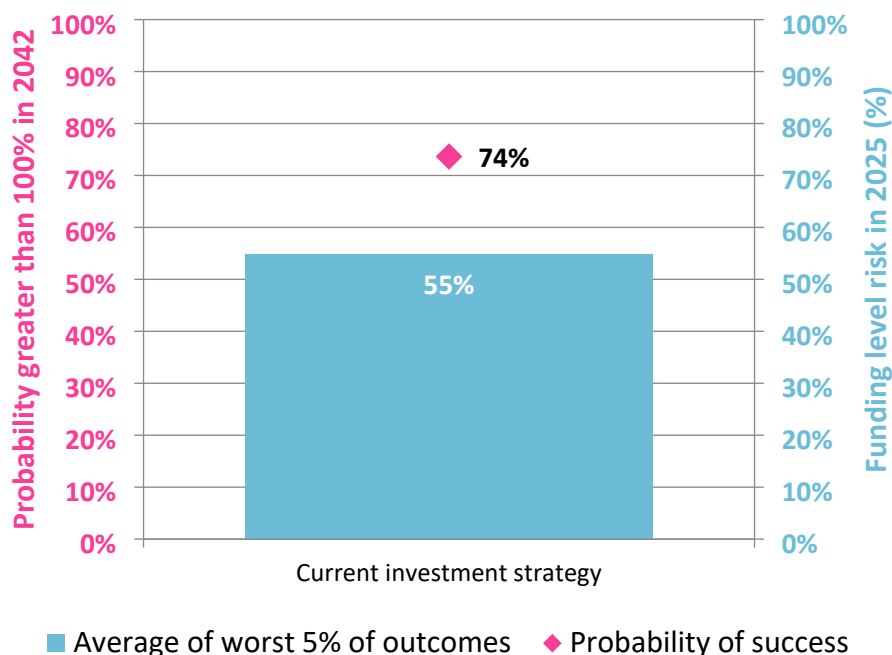
The Committee uses an integrated risk management based approach for considering investment risk and setting the investment strategy. Analysis is carried out at a whole fund level and the Fund currently offers a single investment strategy for all employers.

These risks are analysed using Asset Liability Modelling (“ALM”) where Assets and liabilities are projected forward under the 5,000 simulations. For each of the scenario modelled, the chances of meeting the Fund’s funding objective are assessed – shown as a pink diamond and read from the left hand scale in the chart below.

This probability of success is then measured against the possible downside risk – the funding level at the next valuation in the event of a ‘poor outcome’, defined as the average of the worst 5% of outcomes – shown by a blue bar and read from the right hand scale in the chart below.

The Committee seeks to take sufficient investment risk such that the probability of meeting the Fund’s funding objective remains above 2/3rds, whilst trying to maximise the Fund’s funding level in the worst 5% of modelled outcomes.

Chart 1:



6.2 Funding risks

Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.

Changing demographics – The risk that longevity improves, and other demographic factors change, increasing the cost of Fund benefits.

Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Fund’s liabilities.

The Committee measures and manages financial mismatch by setting a strategic asset allocation benchmark for the Fund. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

6.3 Asset risks

Concentration – The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

Illiquidity – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

Market risk – The risk that the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and alternatives, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).

Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.

Climate risk – The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts, and the expected transition to a low-carbon economy.

Manager underperformance – The failure by the investment managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows:

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis.

Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a proportion of the Fund's assets managed on an index-tracking basis. The Committee assess the Fund's investment managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Investment managers are appointed to manage the Fund's investments on its behalf. This risk is small relative to other risks; however the Fund still addresses this risk. Extensive due diligence is used before managers are selected, with a number of different managers chosen to prevent concentration risk. The investment managers are also monitored regularly by the Committee, Officers and by the Fund's Advisors.

One of the largest risks that the Fund is running is in relation to its equity holdings. Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Fund, but does believe in diversification, and looks to mitigate equity risk by investing significantly in bonds and alternatives. The Fund is a long-term investor but does require income over and above contributions received in order to pay pensions.

The Fund has a significant amount of assets allocated to a range of alternatives, with allocations to property, infrastructure, and private debt. The risks that these investments bring at an individual level is not insignificant however the Committee believe that over the long-term alternatives will provide returns that compensate for the risks being run. Additionally the level of diversification the assets provide helps to reduce the Funds reliance on returns from equities. Illiquid assets such as property, Infrastructure and Private Debt are also a valuable source of income.

6.4 Other provider risks

Transition risk – The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

Custody risk – The risk of losing economic rights to Fund assets, when held in custody or when being traded.

Credit default – The possibility of default of a counterparty in meeting its obligations.

Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

6.5 Demographic risks

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

6.6 Cashflow management risks

As noted above, the Fund is marginally cash flow positive after taking investment income into account. However, this position will be reviewed regularly and is a factor that is incorporated into the Fund's investment strategy reviews in order that a portfolio of income generating assets is built up over time.

6.7 Governance risks

The Fund believes that there is a benefit to the Fund to be gained from good governance in the form of either or both of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks being missed and have a detrimental effect on the funding level and deficit.

Details of the Fund's governance structure can be found in the Governance Compliance Statement in the Fund's annual report and accounts.

6.8 Environmental, Social and Governance (“ESG”) risks

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.

Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention, or sale. Each of the investment managers has produced a statement setting out its policy in this regard. The investment managers have been delegated by the Committee to act accordingly.

The Committee takes ESG matters, including climate change, seriously and regularly reviews its policies in this area and its investment managers' approach to ESG. The Committee have established a formal set of RI investment beliefs which are included in the appendix to this statement.

In 2021, the Committee undertook dedicated training sessions on the risks climate change poses to the Fund. This included climate change scenario modelling which aimed to illustrate how the Fund's funding position could be impacted in the future by climate and ESG risks under a variety of scenarios.

The Fund aims to take further action with regards to ESG governance and oversight. Work is expected to include Further training, ESG reporting, and setting measurable metrics and targets for driving change.

The Fund does not hold any assets which it deems to be social investments.

7 Approach to asset pooling

Isle of Wight Council is a member of the ACCESS pool along with the following ten other pension funds:

- Cambridgeshire County Council
- East Sussex County Council
- Essex County Council
- Hampshire County Council
- Hertfordshire County Council
- Kent County Council
- Norfolk County Council
- West Northamptonshire Council
- Suffolk County Council
- West Sussex County Council

All 11 funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter Authority Agreement to underpin their partnership. ACCESS is working to a project plan in order to create the appropriate means to pool investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared is set out in the submission made to the Government in July 2016, which is available on the ACCESS website <http://www.accesspool.org/>

All 11 ACCESS funds are working in the expectation that all investments will be pooled apart from a minority of investments where there is a no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

7.1 Assets to be invested in the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. The key criteria for assessment of Pool solutions will be as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has 88.2% of its assets invested directly via the ACCESS Pool or deemed under pool management.

Mandates invested directly via the ACCESS pool include Blackrock UK Equity, Newton Global Equity, Baillie Gifford DGF and Royal London Fixed Income.
Mandates deemed under pool management include UBS passive global equity.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2025.

8 Voting rights and engagement

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the investment managers have produced written guidelines of their process and practice in this regard. Copies of the investment managers' latest corporate governance reports are available from the Pension Fund Manager. The investment managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

The Committee supports engagement activity that seeks to:

- Achieve greater disclosure of information on the ESG-related risks that could affect the value of an investment.
- Achieve transparency of an investment's carbon exposure and how such companies are preparing for the transition to a low carbon economy.
- Encourage its asset managers to actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the Fund.

9 Environmental, Social and Corporate Governance policy and policy of the exercise of rights (including voting rights) attaching to investments

The Committee must act with the best financial interests of the beneficiaries, present and future, in mind. The Committee believes that companies should be aware of the potential risks associated with adopting practices that are socially, environmentally, or ethically unacceptable. As part of the investment decision-making process, investment managers are required to consider such practices and assess the extent to which this will detract from company performance and returns to shareholders.

Investment managers are required to exercise voting rights on behalf of the Fund when it is in the best interests of the Fund. The 11 Councils of the ACCESS pool have agreed a set of Voting Guidelines that set out the stewardship expectations for listed companies in relation to reports, accounts and audit, directors and remuneration, shareholder rights and environmental issues. The latest version of the Voting Guidelines can be found on the ACCESS website.

The Fund has deferred stock lending policies to its public equity mandate managers. The Committee recognises that stock lending may inhibit the full application of the Fund's voting policy as votes may not be cast on stock on loan and thus further considerations will be given to including a stock-lending stance within the policy.

The Fund has never sought to implement a policy that explicitly excludes certain types of investments, companies, or sectors except where they are barred by UK law. The Fund believes that its influence as a shareholder is better deployed by engaging with companies, in order to influence behaviour and enhance shareholder value. The Fund believes that this influence would be lost through a divestment or screening approach. The Fund actively engages with companies through its investment managers.

Ultimately the Fund will always retain the right to disinvest from certain companies or sectors in the event that all other approaches are unsuccessful and it is determined that the investment is no longer aligned with the interests of the Fund or that the issue poses a material financial risk.

As an active member of the ACCESS pool, the Fund's Responsible Investment (RI) beliefs are adequately reflected in the pool-wide RI guidelines, which were collectively agreed by the member funds. The Committee will continue to contribute to the ACCESS pool's RI developments through contributions at the Joint Committee meetings which decide the Pool's Business Plan for the short, medium, and long term.

Climate change is increasingly being recognised by regulatory bodies and legislators as an issue that must be explicitly addressed by asset owners and investment managers. The uncertainty arising from climate change has implications for the Fund's investment strategy and thus the Committee aims to further assess climate change and other environmental risks as its strategy develops. The Isle of Wight Pension Fund aims to engage with its managers to ensure that a common mechanism for monitoring climate-related risks can be developed in respect of all the Fund's assets.

Societal expectations of companies with regard to human rights are increasing, as are legal and regulatory obligations. There is an increasing expectation on companies to ensure that they protect human rights in line with international, legal, and regulatory obligations on a global scale both directly, and within their supply chains. The Fund recognises that it has an obligation to respect human rights as outlined within the UN Guiding Principles on Business and Humans Rights and to encourage good practice which protects against violation and exploitation. This extends to expecting compliance with normative standards and relevant legislation.

The Committee aims to establish an ESG policy encompassing the environmental, social and governance issues highlighted above, and in line with the guidance published by the LGPS Scheme Advisory Board in 2019. This policy will be measured against the current legal and best practice framework, in particular on climate change risk.

The Fund previously committed to the UK Stewardship Code 2012 as published by the Financial Reporting Council. An enhanced UK Stewardship Code 2020 took effect on 1 January 2020. The Committee are yet to consider becoming a signatory to the new code, and, in the meantime, aims to work closely with ACCESS on stewardship and engagement issues including ESG issues and voting rights.

In line with the new expected LGPS regulations, the Fund will work towards becoming compliant with the Taskforce for Climate-related Financial Disclosures (“TCFD”) framework and will seek to report against the four key areas of governance, strategy, risk management, and metrics and targets.

10 Myners Principles

Although not specifically referenced in the Regulations, the Committee feels that assessment of compliance with the Myners Principles is a valuable governance tool. A copy of the Fund's Myners Compliance Statement can be found in Appendix B.

11 Advice taken

In creating this statement, the Fund has taken advice from its Investment Consultant. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant and the Scheme Actuary, Hymans Robertson LLP. In providing investment advice, Hymans Robertson is regulated by the Financial Conduct Authority.

12 Related Documents

Isle of Wight Council Funding
Strategy Statement

<https://www.isleofwightpensionfund.org/resources/isle-of-wight-council-pension-fund-2022-funding-strategy-statement/>

13 Appendix A – Investment Beliefs

13.1 Governance

A clear set of investment beliefs can help achieve good governance by providing a framework for all investment decisions.

Effective governance not only ensures appropriate levels of control over the fund but can add value through correct resourcing and improved decision making.

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.

The Committee view long-term as typically being greater than 15 years, medium-term typically being between 3-15 years and short-term being less than 3 years.

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.

Committee members and staff at the ACCESS pool must have the correct level of skills and investment knowledge to understand the level of risk in the investment portfolio.

Manager selection should be delegated to the ACCESS pool and the Committee aim to have a good working relationship with the ACCESS pool.

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

13.2 Strategy

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.

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.

13.3 Risk

Adopt a strategy to generate sufficient returns to keep the cost of new benefits accruing reasonable and maintain a balance of stable employer contributions and investment risk.

Risk should be employed efficiently with a view to generating a required level of risk adjusted return. While risk should be rewarded in the long-term current market conditions should also be a consideration.

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.

The Committee believes that it is appropriate to be aware of potential downside risks and consider the role of low risk matching assets within the strategy

Foreign currency exposure is part of managing a global portfolio of investments. There is no strategic hedging of currency exposure from volatile asset classes such as equities as the Fund believes this to be of limited benefit to long term investment returns.

Pooling represents significant risk to the Fund and decisions made should aim to minimise this risk where possible.

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.

13.4 Responsible Investment

The Fund is a long-term investor, and the investments should be able to generate sustainable returns to pay pensions for scheme members. Environmental, Social and Governance (“ESG”) issues can have a material impact on the long-term performance of its investments.

The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations carry the same weight as non-financial considerations.

Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.

Responsible ownership of companies benefits long term asset owners. Companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.

The Fund aims to work closely with ACCESS on stewardship and engagement issues including ESG issues and voting rights.

14 Appendix B – Myners Principles compliance statement

Principle

Principle 1 Effective Decision Making:

Administering authorities should ensure:

- That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Principle 2 Clear objectives:

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.

Principle 3 Risk and liabilities:

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Response on Adherence

Compliant

Decisions are taken by the Committee which is responsible for the management of the Fund.

The Committee has support from council officers with sufficient experience to assist them. The Committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions.

The Committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.

Compliant

The Committee has established objectives for the Fund which takes account of the nature of fund liabilities and the contribution strategy.

This involved discussions with the actuary to enable the Committee to set the overall risk budget for the Fund. This is reflected in the investment mandates awarded to the asset managers.

There is dialogue with all employers within the fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.

Compliant

The investment strategy is considered in the light of the nature of the fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity.

The Committee and council officers have discussed the contribution strategy with the actuary taking account of the strength of covenant of the council and its long-term horizon. Discussions have also taken place with all employers in relation to the affordability of contributions and the strengths of their covenants.

Principle

Principle 4 Performance assessment:

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.
- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Principle 5 Responsible Ownership:

Administering authorities should

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the Statement of Investment Principles or Investment Strategy Statement.
- Report periodically to scheme members on the discharge of such responsibilities.

Principle 6 Transparency and Reporting:

Administering authorities should

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Should provide regular communication to scheme members in the form they consider most appropriate.

Response on Adherence

Partially Compliant

The performance of the Fund and its individual managers are monitored on a regular basis. The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender. The Committee is developing formal processes to measure its own effectiveness.

Partially Compliant

The Committee encourages its investment managers to adopt the ISC Statement of Principles on the responsibilities of shareholders and agents on the Fund's behalf. The Investment Strategy Statement includes a statement on the fund's policy on responsible ownership. The Committee needs to consider the implications of the new enhanced UK Stewardship Code issued in January 2021 and the extent to which it is compliant with the new requirements.

Compliant

The Committee maintains minutes of meetings which are available on the council website. The Committee meets periodically with sponsoring employer bodies. An External Employer representative and a Scheme Member representative attend Committee meetings. The Investment Strategy Statement is published on the pension fund website and is available to members on request. Other information on the scheme is also available to members on the pension fund website.