

Isle of Wight Pension Fund

Localism and Responsible Investment (RI) – Investment Considerations



LGPS – your objectives

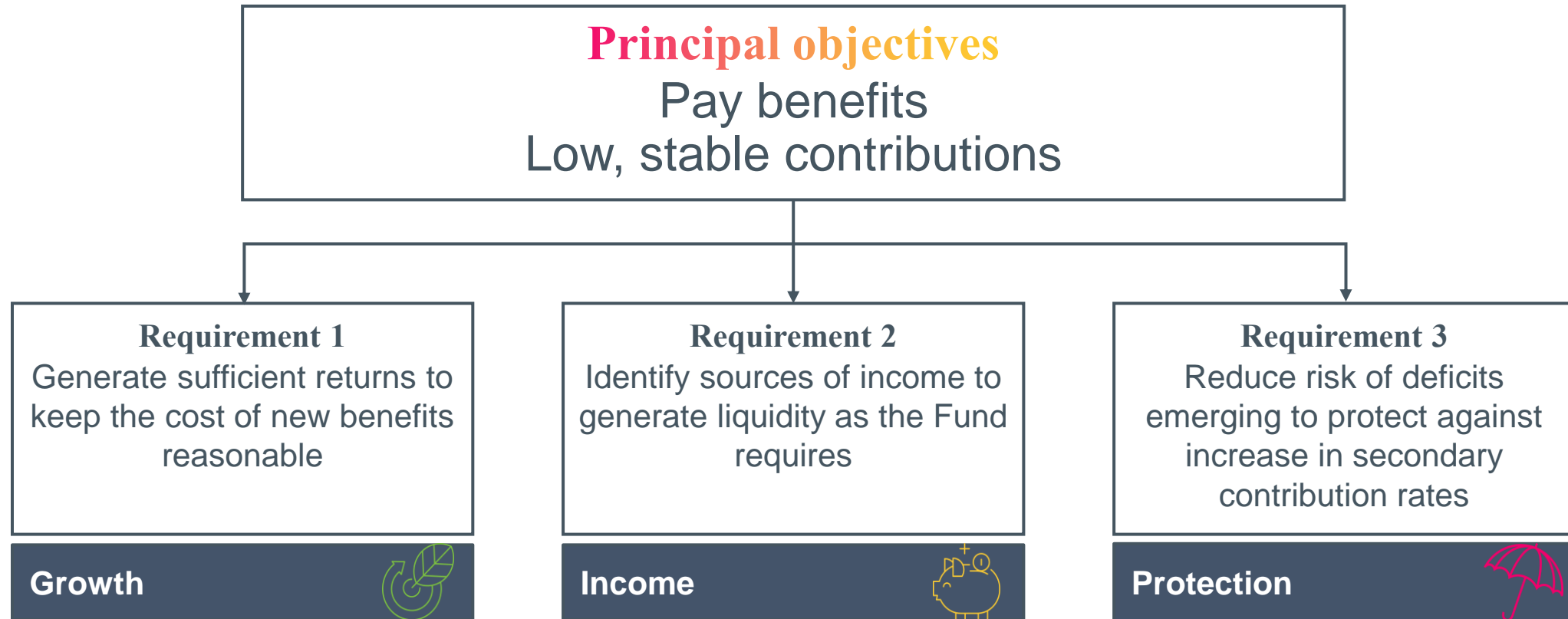
“The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme (“LGPS”) regulations and statutory provisions.

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.”

Isle of Wight – Investment Strategy Statement 2024

Balancing objectives and requirements



Reflecting objectives in strategic targets

	Asset class	Allocation %	Role (s) within the strategy
Growth 	Equity	50.0	Long term growth in excess of inflation
Income 	Property	8.0	Diversification and regular investment income. Returns expected to be inflation sensitive. Exposure to Illiquidity premium
	Infrastructure	10.0	Returns expected to be inflation sensitive. Diversified source of return and regular income. Exposure to Illiquidity premium
	Private Debt	10.0	Diversified source of return and regular income. Exposure to Illiquidity premium.
Protection 	Fixed Income	22.0	Diversified source of return from a range of sources. Some duration exposure to provide funding stability. Income generating.

Recent areas of focus from Government

Pooling

LGPS funds should transfer all (listed) assets to their pool by 31 March 2025. Should set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled

Levelling up

Require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan

Private equity

Require funds to consider investments to meet the government's ambition of a 10% allocation to private equity

Local investments?

As well as ...

- *The authority's investment strategy may 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 – LGPS Investment regulations*
- *The government will “work with the Local Government Pension Scheme to consider the role they could play in unlocking investment in new children's homes” - Spring 2024 budget*
- *LGPS funds are encouraged to “develop and strengthen partnerships” with the British Business Bank (a government owned “economic development” bank designed to support smaller businesses with accessing financial markets) in order to access its pipeline of investment opportunities. – Mansion House reforms*
- *All LGPS Funds must set out the amount of asset allocated to – UK listed equity, UK government bonds, UK infrastructure, Global and UK private equity - 2024 Annual reporting guidance*

Local investments – key considerations

Factors	Issues to consider
Defining local	What does local mean to you? Within the Fund's authority districts, regional, pool or UK wide
Fiduciary duty	Does a local investment stack up from a risk and return perspective? Is there a specific return premium that can be captured but also have a local focus?
Risk	How do you assess the risk related to a local investment? Is the risk more concentrated than other investments and does it benefit or increase the overall mix of risks within the Fund? Or does it offer some diversification benefits?
Strategic fit	Does this fit as a separate strategic allocation to local impact investments or sub allocations within existing asset allocations (e.g. equity, debt or infrastructure)
Comparing local opportunities	Local investments can be more idiosyncratic in nature so how do you compare different potential opportunities on a like-for-like basis
Impact	Is there is specific impact that a locally focussed investment is aiming to achieve and if so how is that impact measured (social, environmental, economic etc). Are there risks of negative impacts, particularly if the investment goes wrong? Are there reputational risks?

Local investments – key considerations (2)

Factors	Issues to consider
Scale	Are local investments available in sufficient scale to access as a structured and investible solution?
3 rd party managers	Are there 3 rd party managers with the knowledge and expertise to generate and manage a local investment that meets financial and local requirements?
Access to market	How accessible are the local investment opportunities as an institutionally robust and regulated investment?
Governance	How will the governance of a local investment be managed, are there any specific conflicts that need to be managed for example balancing financial and local aims, interactions with the local authority?
Resourcing	Does a local investment warrant the resourcing requirements for identifying opportunities, evaluating them and ongoing monitoring? How can Fund's avoid a disproportionate degree of time and cost being devoted to a small part of the assets?

Overview on local investments

- The regulatory framework for the LGPS has provisions for Fund's to make local investments, but these must still consider the overall objectives and requirements of the Fund
- The recent Government focus on the LGPS supporting levelling up is potentially aligned to local investments but the onus is on investing to support growth in the UK
- Local investment may provide opportunities that meet both financial and local aims but add a range of other considerations that need to be carefully managed
- A key requirement of successful local investments is that the risk and return requirements are appropriate and that they do not disproportionately add to governance and resourcing needs

Responsible investment (RI)

- 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

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Fund's position on pooling and RI

Mandate	Pool status	Target %	RI considerations
BlackRock UK Equity	ACCESS Sub Fund	12.5	<ul style="list-style-type: none"> • Carbon footprinting and ESG analysis carried out on listed holdings in 2021 • Climate scenario modelling completed in conjunction with the actuarial valuation and strategy review process in 2022/23 • Detailed ACCESS pool RI policy in place covering beliefs, objectives, approach to stewardship (voting and engagement) and reporting • RI and ESG considerations considered as part of all recent strategic changes and manager appointments • Allocation to UBS strategy with specific climate objectives and emissions target
Newton Global Equity	ACCESS Sub Fund	18.75	
UBS Climate Aware Equity	Passive solution – ACCESS governance	18.75	
Schroders property	Transition to new ACCESS solution to be implemented	8.0	
GSAM Loan Fund IV	Non ACCESS – closed ended fund	10	
Pantheon Private Debt Secondaries	Non ACCESS – closed ended fund		
Partners Infrastructure	Non ACCESS – closed ended fund	10	
JP Morgan Infrastructure	ACCESS pool aligned		
Royal London Core Bond Fund	ACCESS Sub Fund	22	

- All listed assets either directly pooled through ACCESS ACS sub funds or under pool governance (72% of Fund assets)
- Plans agreed to transition 20% alternative assets into ACCESS pool solutions or in pool aligned solutions
- Remaining allocation in private debt to be considered once ACCESS solution is developed

Next steps on Responsible Investment

- Review and update beliefs on responsible investment
- Consider RI and climate risk in more detail and potentially separate these risks as key risks to be managed by the Fund
- Further work on climate risk to understand exposures, risks and opportunities.
 - Review gaps against Taskforce for Climate Related Financial Disclosure (TCFD) requirements including metrics and targets
 - Update carbon footprint and review progress against goals
 - Consider approach and potential ambition or net zero target
- Incorporate further climate modelling as part of upcoming 2025 actuarial valuation and strategic investment review
- Revisit risk register to reflect work undertaken to manage RI risks

Thank you

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