



Purpose: For Decision

# Committee report

Committee	<b>ISLE OF WIGHT PENSION FUND COMMITTEE</b>
Date	<b>27 JANUARY 2021</b>
Title	<b>EQUITY INVESTMENT REBALANCING</b>
Report of	<b>TECHNICAL FINANCE MANAGER</b>

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## EXECUTIVE SUMMARY

1. The Committee is asked to receive a presentation from UBS on their passive equity Climate Aware fund and to reaffirm the decision to invest 18.75 per cent of the fund's total investments in that fund.

## CONFIDENTIAL / EXEMPT ITEMS

2. The appendix presented with this report is deemed to be exempt from disclosure by virtue of paragraph 3 of part 1 of schedule 12A of the Local Government Act 1972 (as amended) as it "relates to financial or business affairs of any particular person", (including the authority holding that information). The public interest in maintaining confidentiality outweighs the public interest in disclosing it. Disclosing the information could place the council at risk of legal challenge from individuals or other bodies identified in the report.

## BACKGROUND

3. At a workshop following the 28 October committee meeting, Hymans Robertson facilitated a presentation from UBS which introduced members to the passive management of equities, and the relative benefits of that management style in achieving a balanced investment strategy.
4. At its meeting on 25 November 2020, the committee received a report from Hymans Robertson on the rebalancing of its equity investment portfolio, which included the introduction of an allocation to passively managed equities to complement its current actively managed portfolios.
5. The committee agreed the recommendations set out in the report, namely:
  - (a) To reduce the allocation to Majedie UK equities from 22.5 per cent to 12.5 per cent.

- (b) To reduce the allocation to Newton global equities from 32.5 per cent to 18.75 per cent.
  - (c) To introduce a new allocation of 18.75 per cent to the UBS Climate Aware fund, funded 5 per cent from Majedie and 13.75 per cent from Newton.
  - (d) To continue to reduce the overall equity exposure by 5 per cent by seeding the new 5 per cent Private Debt allocation from Majedie UK equities.
6. The committee will receive a report later in this meeting on the progress towards achieving the last of the above recommendations, following them approval of the Goldman Sachs Merchant Banking Division Broad Street Loan Partners IV fund at the November committee meeting.
7. Combining this and the next agenda items, representatives from UBS will be making a presentation to the committee on the Climate Aware fund, to outline the specific attributes of this fund in meeting the committee's strategic investment allocation and also in continuing to its first steps in implementing its environmental, social and governance risk management policy.
8. The confidential appendix to this report contains the Hymans Robertson due diligence report on the UBS Climate Aware fund, confirming its suitability for the pension fund.
9. The pension fund will be able to use the ACCESS pool's jointly procured agreement with UBS to manage the pool's passive investments to implement its allocation to passive equities. While not managed through the Authorised Contractual Scheme vehicle managed by Link Fund Solutions, the UBS passively managed assets are considered as under pooled control, hence contributing to the government's agenda that all pension fund assets should be under pooled management.

## STRATEGIC CONTEXT

10. 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.
11. 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

12. 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.
13. 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.
14. Setting an appropriate investment strategy forms part of this exercise.

### LEGAL IMPLICATIONS

15. The council, as administering authority, has to operate within the relevant statutory provisions related to the Local Government Pension Scheme.
16. 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.
17. 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.

18. The Pension Committee's terms of reference, included in 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".
19. 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".
20. 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

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. Ratifying the selection of an appropriate investment vehicle for the fund's private debt allocation has no implications for any of the protected characteristics.

### RISK MANAGEMENT

23. 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.
24. The committee members have undertaken a development session, facilitated by investment managers with expertise in the passive equity management under consideration, to increase their understanding of the asset class. The decision to agree a strategic allocation to passively managed global equities has been entered into based on this increased understanding.
25. By using the services of its investment consultants to review the manager to invest in this asset class on behalf of the fund, the committee can ensure that the manager identified has the necessary ability and practical experience to make the required investment decisions.

## RECOMMENDATION

26. The committee received the presentation from UBS on their Climate Aware fund.
27. The committee agrees to introduce a new allocation of 18.75 per cent to the UBS Climate Aware fund, funded 5 per cent from Majedie and 13.75 per cent from Newton.
28. The committee authorises officers to begin the process necessary to fulfil this investment, working with Hymans Robertson to develop and implement the necessary transition plan.

## APPENDICES ATTACHED

29. Appendix 1: CONFIDENTIAL Hymans Robertson due diligence report

## BACKGROUND PAPERS

30. Isle of Wight Pension Fund 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](https://www.iow.gov.uk/Meetings/committees/IW%20Pension%20Fund/14-2-20/PAPER_F.pdf)
31. Isle of Wight Pension Fund 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>
32. Isle of Wight Pension Fund 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>
33. Isle of Wight Pension Fund Committee meeting 25 November 2020, Item 15: Investment Strategy implementation – Equity Allocation.  
<https://iow.moderngov.co.uk/ieListDocuments.aspx?CId=175&MIId=218&Ver=4>

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