



Committee report

Committee	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	3 MARCH 2021
Title	INVESTMENT STRATEGY STATEMENT 2021
Report of	TECHNICAL FINANCE 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 2019 triennial valuation.
2. Members are asked to review the revisions to the ISS, agree the proposed changes made and adopt the revised statement. Subsequently, the ISS will be published on the fund's website.

BACKGROUND

3. 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).
4. The ISS should set out how the fund addresses each of the objectives included in the 2016 regulations, namely:
 - a requirement to invest fund money in a wide range of instruments.
 - the assessment of the suitability of particular investments and types of investment.
 - the approach to risk, including the ways in which risks are to be measured and managed.
 - the approach to pooling investments, including the use of collective investment vehicles.
 - the policy on how social, environmental or corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments.
 - the policy on the exercise of the rights (including voting rights) attaching to investments.

5. The previous version of the ISS was adopted by the committee in January 2019, having been updated for the fund's funding and investment beliefs and objectives which were agreed in September 2018. At the time, it was noted that the ISS would be reviewed in more detail following the triennial valuation of the fund at 31 March 2019.
6. During the calendar year 2020, the committee has reviewed and significantly amended its strategic asset allocation, including the introduction of new allocations to private debt, infrastructure and passive global equity.
7. 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.
8. There are no changes proposed at this stage to the fund's investment beliefs and objectives, included as appendix A to the ISS. It is planned that these will be reviewed during 2021, so revisions can be adopted into an updated version of the ISS.
9. Some amendments are proposed to the fund's statements on environmental, social and corporate governance (ESG) and responsible investment (RI) issues, but these will again be supplemented by work planned during 2021, which will include the development of a specific policy on ESG/RI issues, linking into work being carried out by the ACCESS pool.
10. In addition, the committee's workplan includes consideration of the fund's response to the enhanced UK Stewardship Code 2020, and compliance with the Task Force on Climate-related Financial Disclosures (TCFD) requirements.

STRATEGIC CONTEXT

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 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 employers to meet the cost of future benefits accruing.
12. Specifically, the fund has agreed the following investment strategy objectives:
 - 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. The proposed Investment Strategy Statement is driven by, and supports, all of these objectives.

CONSULTATION

14. 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.
15. Members of the Local Pension Board have been engaged in all the workshops and 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

16. The proposed revisions to the Investment Strategy Statement have been drafted by the fund's investment consultants, Hymans Robertson LLP. The costs for the ISS amendments are being charged to the Pension Fund budget and have no impact on the council's budget.

CARBON EMISSIONS

17. There are no specific impacts on the council's carbon emissions from adopting the proposed Investment Strategy Statement.
18. Future workshops on ESG matters, including the fund's assessment, monitoring and reporting of the carbon footprint of its investment portfolios, and its response to the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) will improve the committee's understanding of these matters.

LEGAL IMPLICATIONS

19. 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).

20. 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.
21. 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

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

OPTIONS

24. 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.
25. Option 1: The committee agrees the proposed changes to the Investment Strategy Statement, and approves the revised statement for publication on the fund's websites. The committee further agrees that further revisions will be brought to the committee following the development of a specific ESG/RI policy.
26. Option 2: The committee does not agree the proposed changes to the Investment Strategy Statement, and requests further work to be undertaken to update all, relevant sections before it is published.

RISK MANAGEMENT

27. 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 2019 triennial valuation.
28. The fund is required to publish a revised ISS where there are significant changes.
29. The ISS contains details of the principle investment risks facing the fund and sets out the fund's approach to managing these risks and the mitigating actions in place.

EVALUATION

30. 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.
31. Due to current resource constraints, the completion of the new ESG/RI policy may take some time. In the interim period, the fund will not be compliant with regulations, in that it has made significant revisions to its strategy but has not published an updated statement.

RECOMMENDATION

32. Option 1: The committee agrees the proposed changes to the Investment Strategy Statement, and approves the revised statement for publication on the fund's websites. The committee further agrees that further revisions will be brought to the committee following the development of a specific ESG/RI policy.

APPENDICES ATTACHED

33. Appendix 1: Statement of Changes Made to the Investment Strategy Statement
34. Appendix 2: Draft Investment Strategy Statement March 2021.

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