



Report of: **Corporate Director of Finance and Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	13 March 2017		n/a

Delete as appropriate		Non-exempt
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## **SUBJECT: INVESTMENT STRATEGY STATEMENT AND STRATEGY REVIEW FRAMEWORK**

### **1. Synopsis**

- 1.1 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1 November 2016 and requires all funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.

The 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 document replaces the Fund's Statement of Investment Principles (attached as Appendix 2 for reference)

- 1.2 At the 2016 Actuarial Valuation review the Fund agreed and moved to a CPI plus discount rate for valuing pension liabilities and as such a review of the fund investment strategy is to be undertaken to reflect this new objective. The last strategy review was completed in 2014.

### **2. Recommendation**

- 2.1 To consider and approve the draft ISS attached as Appendix 1

- 2.2 To consider and agree the following details of the ISS document
- (i) investment beliefs and objectives
  - (ii) risk attribution analysis following the strategy review
  - (iii) approach to asset pooling
  - (iv) social environmental and corporate governance policy

- 2.3 To agree to review becoming signatories to the UK Stewardship Code as outlined in para 3.3

- 2.4 To agree to delegate the final approval of the ISS to the Corporate Director of Finance and Resources in consultation with the Chair and Pension Board for publication on 1April.
- 2.5 To note the ISS is a living document that will be revised as changes occur.
- 2.6 To consider the Mercer presentation on the framework of the investment strategy and agree next steps.

### **3. Background**

- 3.1 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1 November 2016 and requires all Funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.
  - 3.1.1 The 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 document replaces the Fund's Statement of Investment Principles.
  - 3.1.2 In order to comply with the guidance administering authorities must take proper advice, however the source is not prescribed. The Fund will therefore take advice from its investment advisors and actuary as well as consult the Pension Board.
  - 3.1.3 The Regulations- Investment Strategy Statement  
Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The ISS must include:
    - A requirement to invest money in a wide variety of investments;
    - The authority's assessment of the suitability of particular investments and types of investments;
    - The authority approach to risk , including the ways in which risks are measured and managed;
    - The authority's approach to pooling investments, including investments, including the use of collective investments vehicles and shared services;
    - The authority's policy on how social environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments and ;
    - The authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 3.2 In accordance with the guidance, officers and Mercer, our investments advisors have prepared a draft ISS attached as Appendix 1. The draft is closely based on the information in the SIP (attached as Appendix 2) however members are asked to consider the following details
  - (i) investment beliefs and objectives
  - (ii) risk attribution analysis following the strategy review
  - (iii) approach to asset pooling
  - (iv) social environmental and corporate governance policy

### 3.3 Financial Reporting Council UK Stewardship Code

The guidance states that administering Authorities should become signatories to the Financial Reporting Council UK Stewardship Code and state how they implement the seven principles and apply the guidance of the Code on a comply or explain basis.

The principles states that institutional investors should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities
- have a robust policy on managing conflicts of interest in relation to stewardship which could be publicly disclosed
- monitor their investee companies
- establish clear guidelines on when and how they will escalate their stewardship activities
- be willing to act collectively with other investors where appropriate
- have a clear policy on voting and disclosure of voting activities
- report periodically on their stewardship and voting activities

3.3.1 The Fund is not currently a signatory to the Code but the expectation within the guidance is that all LGPS Funds will become signatories to the UK Stewardship Code as asset owners. Members are asked to consider the principles and review steps needed to be taken to become signatories.

### 3.4 Investment Strategy Review

Following the 2016 actuarial review and agreement by Members to now move to a CPI plus discount rate for valuing pension liabilities, it was agreed to review the current strategy to evaluate risk and assets to ascertain that they can meet our new objective. Members completed the last investment review in 2014. Mercer, our investment advisors, will be making a presentation to consider the framework and next steps

## 4. **Implications**

### 4.1 **Financial implications**

4.1.1 The cost of providing independent investment advice is part of fund management and administration fees charged to the pension fund.

### 4.2 **Legal Implications**

The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1 November 2016 and requires all funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.

The ISS has been designed to be a living document and is an important governance tool for the Fund.

### 4.3 **Environmental Implications**

Environmental considerations can lawfully be taken into account in investment decisions

### 4.4 **Resident Impact Assessment**

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and

encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding

## **5. Conclusion and reasons for recommendation**

- 5.1 Members are asked to consider and agree the draft ISS attached as Appendix1 and delegate the final approval of the ISS to the Corporate Director of Finance and Resources in consultation with the Chair and Pension Board for publication on 1 April.
- 5.2 Members asked to consider the Mercer presentation on the Fund's investment strategy review framework and agree next steps.

### **Background papers:**

SIP November 2014

Final report clearance:

### **Signed by:**

<b>Received by:</b>	Corporate Director of Finance & Resources	Date
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	Head of Democratic Services	Date
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