

Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions sub- committee	25 November 2014	B4	n/a

Delete as appropriate	Exempt	Non-exempt

SUBJECT: STATEMENT OF INVESTMENT PRINCIPLES (SIP) UPDATED

1. Synopsis

- 1.1 Regulation 12(2)(f) of the Management and Investment of Funds Regulations requires that the Statement of Investment Principles (SIP) must be a statement of the principles governing the authority's decisions about the investment of fund money, which covers the extent to which social, ethical or environmental (SEE) considerations are taken into account in the selection, retention and realisation of investments.
Our current SIP paragraphs, on social and ethical considerations have now been updated to reflect the above regulation after Counsel advice. The SIP should be reviewed annually if significant changes have occurred.
- 1.2 The SIP was previously revised at the 17 November 2011 pension sub-committee meeting and published on the council's website.

2. Recommendations

- 2.1 To consider the revised Statement of Investment Principles document attached as Appendix 1, incorporating amendments to the paragraphs on' Exercise Of Shareholder Rights (Including Voting Rights) and Social, Environmental or Ethical Considerations .
- 2.2 To note that, Leading Counsel's view is that the amended SIP represents a lawful approach, subject to practicalities.
- 2.3 To note that the final SIP will need to be revised to incorporate the revised asset allocation for the Fund which is the subject of a separate report to this meeting
- 2.4 To delegate to officers the final revision of the Statement of Investment Principles and its publication on the council's website.

3. Background

- 3.1 The Statement of Investment Principles sets out the policy of the Council towards investment and management of the Pension Fund assets, as required by regulation 12 (1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended. This

Statement must be reviewed regularly and updated within 6 months of any material changes being made to the strategic asset allocation. The revised SIP must be published by the administering authority

- 3.2 Regulation 12(3) of the LGPS (Management and Investment of Funds) Regulations 2009, as amended, also requires the Council to state within its Statement of Investment Principles the extent to which it complies with the guidance issued by the Secretary of State in December 2009 which requires administering authorities to state in their SIP the extent to which they comply with the six principles of investment practice as set out in the CIPFA) publication entitled Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles
- 3.3 The Council is the administering authority for the London Borough of Islington Pension Fund, within the Local Government Pension Scheme (LGPS). It is managed within the legal framework set down in the Local Government Pension Scheme Regulations 2007/8 as amended. The body responsible for decision making in relation to the Pension Fund is the Pensions Sub-Committee of the Audit Committee.
- 3.4 The SIP must cover policy on:
- Types of investment to be held
 - Balance between different types of investment
 - Risk including the ways in which risks are to be measured and managed;
 - Expected return on Investments
 - Realisation of Investments
 - Extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments,
 - Exercise of the rights (including voting rights) attaching to investments, if they have any such policy; and
 - Stock lending
- 3.5 Nigel Giffin QC recently advised the LGPS Advisory Board that an administering authority for Local Government Pension Scheme Funds may choose to take into account e.g. the public health implications of tobacco investment, but only if the result of such a choice is the substitution of those investments with assets producing a similar return.
- 3.6 The existence of fiduciary duties does not make much difference to what the position would be if analysed simply in terms of the obligations imposed upon the administering authority as a matter of public law, i.e. obligations to exercise discretionary powers rationally, for a proper purpose and by reference only to legally relevant considerations.
- 3.7 This means that in managing an LGPS fund, the administering authority has both fiduciary duties and public law duties (which are in practice likely to come to much the same thing). The power/duty to invest fund monies is a power of investment. Therefore it must be exercised, when it comes to the discretion to choose one investment rather than another, for investment purposes, and not for some other purpose. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (balancing risk and return in the normal way).
- 3.8 In June, advice was sought on the current wording of our SIP from Nigel Giffin QC, who advised the Council that, changes would need to be made to the SIP in order that social, environmental or ethical considerations can be taken into account (so long as that does not risk material financial detriment to the fund.)
- 3.9 Officers in consultation with the Chair and Vice Chair of the pensions sub-committee amended the relevant paragraphs on shareholder voting rights and social, environmental or ethical considerations and sought counsel advice in September. Counsel's view is that, the amended SIP represents a lawful approach, subject to practicalities.

- 3.10 Members are therefore asked to consider the revised SIP, **Appendix 1**, incorporating the changes and note that the final SIP will need to be revised to incorporate the revised asset allocation for the Fund which is the subject of a separate report to this meeting and delegate authority to officers to publish the final version on the council's website.

4. Implications

4.1 Financial implications:

- 4.1.1 There are no financial implications arising from this report.

4.2 Legal Implications:

- 4.2.1 The legal requirements with regard to the publication, review and updating of the Statement of Investment Principles are set out in the report.

4.3 Equality Impact Assessment:

- 4.3.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975.)

- 4.3.2 An equalities impact assessment has not been conducted because this report is not considering any policy changes. All employers have been consulted on changes to assumptions and there are no equalities issues arising.

4.4 Environmental Implications

- 4.4.1 Environmental considerations can lawfully be taken into account in investment decisions.

5. Conclusion and reasons for recommendations

- 5.1 Members should consider the draft SIP incorporating amendments to the paragraphs on 'Exercise Of Shareholder Rights (Including Voting Rights) and Social, Environmental or Ethical Considerations and delegate authority to officers to update and publish the final version.

Background papers:

Principles for Investment Decision making in the Local Government Pension Scheme in the United Kingdom;
CIPFA Pensions Panel Issue No 5, April 2002
2011 Islington Councils Pension Fund SIP

Final report clearance:

Signed by: Corporate Director of Finance and Resources Date

Received by: Head of Democratic Services Date

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