



Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date 26<sup>th</sup> September 2023

Ward(s): n/a

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## **SUBJECT: INVESTMENT STRATEGY STATEMENT UPDATE**

### **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<sup>st</sup> November 2016 and required all funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.
- 1.2 The ISS is 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. The ISS must also include 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.
- 1.3 As part of the 2022 Actuarial valuation process the existing strategic asset allocation was reviewed and agreed at the July 2023 meeting. The draft ISS (attached as Appendix 1) is now being updated to reflect the new strategic asset allocation and our new net zero targets.

### **2. Recommendations**

- 2.1 To note the draft ISS document tracked (attached as Appendix 1)
- 2.2 To agree the changes and instruct officers to publish the new ISS.
- 2.3 To note that a stand-alone responsible policy document is being developed for consideration at a future meeting

### **3. Background**

#### Introduction

- 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<sup>st</sup> November 2016 and required all funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.
- 3.2 The ISS is 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. The ISS must also include the authority's policy on how social environmental or corporate governance considerations are reflected in the selection, non- selection, retention and realisation of investments.
- 3.3 As part of the 2022 actuarial valuation process the investment strategy was reviewed to ascertain the risk and return parameters that could deliver the long-term investment target return to maintain affordability and pay our pensioners. Members agreed new carbon targets in June 2022 and the strategic asset allocation was also amended and agreed at the July 2023 meeting and the ISS needs to be amended to reflect these changes.
- 3.4 Members are asked to consider and accept the tracked changes in the draft ISS attached as Appendix 1 so officers can publish our updated ISS document. Further work is underway on Responsible Investment policy as a standalone document and will be a future agenda item to be considered by Members.
- 3.5 The Fund, as an administering authority, will take advice from its investment advisors and actuary as well as consult the Pension Board as required by the guidance.

### **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, Regulation 7(1) requires an administering authority, after taking proper advice, to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The investment strategy must include 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.

The administering authority owes fiduciary duties both to the scheme employers and to the scheme members where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decisions or strategies developed, such as a carbon strategy, must not negatively influence this primary responsibility.

The precise choice of investments can be influenced by ethical and environmental, social and governance (ESG) considerations, so long as that does not risk material financial detriment to the fund. Whilst opining on these issues, King's Counsel (Nigel Giffin) advice, commissioned

by the LGPS Scheme Advisory Board and published in 2014, states that the administering authority may not prefer its own specific interests to those of other scheme employers, and should not seek to impose its particular views where those views would not be widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority).

The Pension Fund must take investment advice on investment decisions.

#### 4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

Environmental implications will be included in each report to the Pension Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>

#### 4.4 **Equalities 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

An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

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

- 5.1 To ask Members to consider the updates in the tracked draft ISS document attached as Appendix 1 and agree to the changes so officers can publish the final document and note that, a stand-alone Responsible Investment policy is being developed for discussion at a future meeting.

#### **Appendix 1-** Draft ISS document

##### **Background papers:**

None

Final report clearance:

**Signed by:**

**Corporate Director of Resources**

Date

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