

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
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Investment Strategy Development	Classification Public	Enclosures Three
	Ward(s) affected ALL	
Pensions Committee 6TH December 2016		

1. INTRODUCTION

- 1.1 This report provides the Committee with a discussion on long term investment strategy to be considered in the light of the actuarial valuation and modelling work to be presented at the Strategy Meeting, as well as the introduction of the new Investment Strategy statement from 1st April 2017. The report follows on from the training sessions provided to Members in June and September 2016, looking at equity investment strategies and progress on the 2016 valuation.

2. RECOMMENDATIONS

- 2.1 **The Pensions Committee is recommended to:**
- **Consider the options provided at the meeting**

3. RELATED DECISIONS

- 3.1 Pensions Committee 18th November 2015 – Actuarial Valuation 2016 – Training and Preliminary Work
- 3.2 Pensions Committee 18th November 2015 – Investment Strategy
- 3.2 Pensions Committee 27th June 2016 – Training Session – Active and Passive Investment Approaches
- 3.3 Pensions Committee 19TH September 2016 – Actuarial Valuation 2016 – Training and Initial Report

4 COMMENTS OF THE GROUP DIRECTOR, CORPORATE FINANCE AND RESOURCES

- 4.1 This presentation by the Fund's investment consultant will set out the timeline for and initial approach to the development of the investment strategy, with a focus on ensuring that the strategy is appropriate for the funding position of the Fund and reflects the investment beliefs of the Committee.
- 4.2 Understanding the impact of adopting different approaches to the investment strategy and the setting of employer contribution strategies enables the Committee to consider the longer term financial impact of such decisions and to take reasonable financial decisions when setting investment and contribution strategies. These decisions will have a significant long term impact on the Council, as the largest contributing employer in the Fund. The costs of obtaining the advice on this subject are minimal

in comparison to the benefits that could be derived from having an appropriate strategy in place with a 'flight plan' set out to achieve full funding.

5. COMMENTS OF THE DIRECTOR, LEGAL

- 5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016. These Regulations represent an update to the LGPS (Management and Investment of Funds) Regulations 2009 and make a number of changes, including dispensing with the current, explicit limits on specified types of investment and instead charging administering authorities with determining the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not.
- 5.2 Effective dates aside, no changes have been made to these regulations since their publication in draft form in 2015. Both regulations and guidance have been published with this report as Appendices 1 and 2 respectively.
- 5.3 Regulation 7 of the 2016 Regulations requires the Administering Authority to formulate an Investment Strategy Statement in line with the guidance published by the Secretary of State. The first such statement must be published by 1st April 2017; the work described in this paper is essential to ensure that the Authority is able to comply with these regulations.

6. DEVELOPMENT OF STRATEGY

- 6.1 With the initial results of the triennial valuation now available, the first step in the development of the investment strategy is to consider if the current investment and funding plan meets the Fund's objectives, and if the level of investment risk could be altered to better meet those objectives without impacting long term funding requirements. One of the most significant decisions will be determining, through the valuation and asset liability modelling results, if the Fund's current allocation to growth assets remains appropriate, or if it should be adjusted.
- 6.2 Having considered the ability of the Fund to be able to achieve its agreed objectives, and whether changes need to be made to the allocation to growth assets, it will then be appropriate to consider more specifically how the strategy should be framed and whether refinements to the current mandate structure are appropriate. Areas for consideration might include:
- What is an efficient balance of active and passive management?
 - Should alternative return sources be considered, and could they improve the balance between risk and return?
 - What is an appropriate strategy for the Bond Mandate, given current low gilt yields and tight credit spreads?
 - How should the recommendations approved as part of the Fund's climate change strategy meeting be implemented within the strategy to ensure that they are in line with the funding objectives?
- 6.3 Also planned as part of the development of the strategy is a review of the Fund's current de-risking triggers, and whether or not they remain appropriate. The objective

here is objective is not to remove all risk but to target a long term steady-state where contributions are maintained at an affordable level and an appropriate amount of investment risk is taken to generate the required level of returns.

- 6.4 The Fund's investment consultant will be in attendance at the meeting to help facilitate a discussion around the initial phase of strategy development and the Committee's investment beliefs

7. INVESTMENT STRATEGY STATEMENT

7.1 New regulations (The LGPS (Management and Investment of Funds) Regulations 2016) affecting LGPS funds in England and Wales came into force on 1st November 2016. The new Regulations will dispense with the current, explicit limits on specified types of investment and, instead, charge administering authorities with determining the appropriate mix of investments for their funds. The quid pro quo for more freedom in the formulation of investment strategies is an obligation upon administering authorities to adhere to official guidance and broad powers allowing the Government to intervene if they do not.

7.2 The Regulations come into force on 1 November 2016 but give administering authorities until 1 April 2017 to publish their first Investment Strategy Statement (ISS) in accordance with the new rules. The Department for Communities and Local Government (DCLG) had already, in September 2016, taken the rather unusual step of publishing its statutory guidance—before the Regulations became law. Effective dates aside, the legislation is all but identical to the draft version that was circulated for consultation purposes in November 2015.

7.3 Regulation 7 of the new Regulations sets out for Administering Authorities what must be included within the new ISS. Items to be included are as follows:

- a requirement to invest fund money in a wide variety of investments;
- the authority's assessment of the suitability of particular investments and types of investments;
- the authority's approach to risk, including the ways in which risks are to be assessed and managed;
- the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- the authority's policy on how social, environmental and 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 the rights (including voting rights) attaching to investments

A draft setting out the initial structure of Hackney's ISS is attached at Appendix 3 to this report. This will require significant revision as aspects of the investment strategy itself are updated and clarified; however, this initial draft has been included to provide the Committee with an overview of the structure. An updated draft of the ISS will be brought to the meeting in January.

7.4 The CIV's RI sub-group is due to meet shortly after the strategy meeting to discuss and draft customisable wording for funds with regards to the points on ESG

considerations and exercise of voting rights. This will ensure that a pool level approach is included as appropriate, whilst allowing funds to include their own policies on Responsible Investment.

Ian Williams
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LIST OF APPENDICES

Appendix 1 - The LGPS (Management and Investment of Funds) Regulations 2016

Appendix 2 - LGPS Guidance on Preparing and Maintaining an Investment
Strategy Statement

Appendix 3 - (Exempt) – Investment Strategy Statement

By Virtue of Paragraph 3 Part 1 of schedule 12A of the Local Government Act 1972 this appendix is exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

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