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| REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES | | |
| Investment Strategy Implementation Plan | Classification PUBLIC | Enclosures One |
| | Ward(s) affected ALL | AGENDA ITEM NO. 10 |
| Pensions Committee 15th March 2021 | | |

1. INTRODUCTION

- 1.1. This report presents the Committee with the proposed approach to implements the Committee's recent investment decisions following the 2020 investment strategy review. It sets out the actions required for implementation and a timetable for carrying these out.

2. RECOMMENDATIONS

- 2.1. The Committee is recommended to:

- Approve the implementation plan as set out in the Appendix to this report, with authority for officers, with relevant advice from advisers, to take the required actions.
- Note that Officers will provide the Committee with a quarterly update regarding progress on the implementation of the Plan along with associated costs incurred.

3. RELATED DECISIONS

- Pensions Committee 24th June 2020 – Investment Strategy Review Timetable and ISS Update
- Pensions Committee 30th September 2020 - Investment Strategy Review Stage 1: Setting High Level Investment Strategy
- Pensions Committee 14th January 2021 - Investment Strategy Review Stage 2: Asset Allocation

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

- 4.1. Following on from the review of the Investment Strategy by the Committee over the last few Committees, this paper sets out a proposed implementation plan to ensure that the approved changes to asset allocations are taken forward within the timelines set out.
- 4.2. As set out in the detailed appendix, it will be important to ensure maximum possible market exposure during the transition of assets between mandates and different asset classes in order to manage risks and officers will take the relevant advice as

to which best options and actual timings are to implement the various parts.

- 4.3. As set out and discussed at previous meetings, each of the changes agreed, when implemented, will result in a “greener” portfolio of holdings in line with the Committee’s aspirations and will certainly assist in the achievement of the Fund’s fossil fuel target by the end of the 6 year period in 2022.
- 4.4. There are no direct financial implications arising from this report although it is important to note that decisions regarding the appropriate mechanisms for implementation will of course have different cost implications for the transition of the assets. Officers will strive to keep these to a minimum bearing in mind associated risks.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

- 5.1. The Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. Reviewing the Fund’s Investment Strategy following the 2019 actuarial valuation helped to ensure that the Strategy remains appropriate given the funding position and assists the Committee in fulfilling this duty.
- 5.2. Regulation 7 of the 2016 Regulations requires the Administering Authority to formulate an Investment Strategy in line with guidance published by the Secretary of State. Regulation 7(2) stipulates that the authority’s investment strategy must include:
 - (a) a requirement to invest fund money in a wide variety of investments;
 - (b) the authority’s assessment of the suitability of particular investments and types of investments;
 - (c) the authority’s approach to risk, including the ways in which risks are to be assessed and managed;
 - (d) the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;
 - (e) 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
 - (f) the authority’s policy on the exercise of the rights (including voting rights) attaching to investments.
- 5.3. This paper helps demonstrate that the Committee is investing in line with Regulation 7(2), by carrying out an assessment of the suitability of different types of investments and considering how some of the risks to which the Fund is exposed can be managed through setting an appropriate investment strategy and subsequent implementation plan.

6. INVESTMENT STRATEGY IMPLEMENTATION

- 6.1. As set out in previous reports to the Committee, the decisions taken around investment strategy are some of the most important decisions taken by the Pensions Committee. Contributions and investment returns are the only two options available to fund benefit payments; decisions around the contribution and investment strategies are therefore some of the most significant in terms of their

overall impact on the Fund. It should be noted that the high level decision making around the type of assets held has far more impact than manager selection.

- 6.2. Appendix 1 to this report sets out specific proposals for the implementation of the agreed investment strategy and broad timelines for this to happen. Advisers from Hymans Robertson will present the detailed Appendix to Committee at the meeting.
- 6.3. The table below however summarises the two phased approach to the transition that was agreed over the last 2 committee meetings.

| Mandate | LCIV Pooled/Non-Pooled | Active/Passive | Current target Benchmark | Phase 1 | Phase 2 |
|---|------------------------|----------------|--------------------------|---------------|---------------|
| London CIV Sustainable World Equity | Pooled | Active | 13.0% | 13.0% | 13.0% |
| BlackRock World Equity | Pooled | Passive | 13.0% | | |
| BlackRock Low Carbon | Pooled | Passive | 10.0% | 10.0% | 10.0% |
| BlackRock UK Equity | Pooled | Passive | 10.0% | | |
| RBC Emerging Markets | Non-Pooled | Active | 4.5% | | |
| LCIV Emerging Markets | Pooled | Active | | 4.5% | 4.5% |
| LCIV Equity/Carbon Focused Mandate | Pooled | Active/passive | | 13.0% | 13.0% |
| Invesco DGF | Non-Pooled | Active | 5.0% | | |
| GMO DGF | Non-Pooled | Active | 7.5% | | |
| LCIV Multi Asset | Pooled | Active | | 7.5% | 7.5% |
| Total Growth | | | 63.0% | 48.0% | 48.0% |
| Columbia Threadneedle Pension Property | Non-Pooled | Active | 7.5% | 7.5% | 7.5% |
| Columbia Threadneedle Low Carbon Property | Non-Pooled | Active | 2.5% | 2.5% | 2.5% |
| Churchill Senior Loans | Non-Pooled | Active | 4.0% | 4.0% | 4.0% |
| Permira Senior Loans | Non-Pooled | Active | 6.0% | 6.0% | 6.0% |
| Opportunities Pot (Infrastructure) | Pooled | Active | | 5.0% | 5.0% |
| Opportunities Pot/Alternative Credit | Pooled | Active | | 10.0% | 10.0% |
| Total Income | | | 20.0% | 35.0% | 35.0% |
| BMO Bonds | Non-Pooled | Active | 17.0% | 17.0% | |
| LCIV Bonds | Pooled | Active | | | 17.0% |
| BlackRock Short Bond | Pooled | Passive | | | |
| Total Protection | | | 17.0% | 17.0% | 17.0% |
| Total Scheme | | | 100.0% | 100.0% | 100.0% |

- 6.4. As can be seen from the table above, at the end of phase 1 the fund's investments will be significantly "greener" than at present, with moves into carbon focused equity mandates and renewable infrastructure. Alongside this a greater percentage of our assets will be held in mandates within the LCIV. This first stage of transition fulfils two of the most important objectives of the fund investment strategy whilst taking

account of the Committee's investment beliefs - a further decarbonisation of the fund alongside some positive investments in renewables (both of which will assist in reaching the current climate change target) as well as continuing the pooling journey.

- 6.5. In phase 2 the fund continues to pool more assets as suitable opportunities arise.
- 6.6. The detailed report at Appendix 1 sets out the options that might be available for each of the actions to be carried out but some of the more detailed decisions on the option actually used will need to be taken by officers, with appropriate advice, at the time they are due to occur pending on the actual conditions at the time. We will need to minimise dealing costs and maximise market and currency exposure as far as is practicable during the transition period.
- 6.7. Committee will receive a quarterly update on progress with implementation, the options actually used and associated costs at future meetings.
- 6.8. With regards to the decision to maintain a 30% currency hedge for overseas equity exposure, it is proposed that we explore alternative ways to implement this via the new strategy and officers will revert to Committee at a future meeting with detailed proposal regarding which party should be used.

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Appendices

EXEMPT Appendix 1 - Investment Strategy Implementation Plan

By Virtue of Paragraph(s) 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.