

| <b>Title of Report</b>         | Investment Strategy Review - Introduction                  |
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| <b>For Consideration By</b>    | Pensions Committee   |
| <b>Meeting Date</b>            | 15th June 2022   |
| <b>Classification</b>          | Open   |
| <b><u>Ward(s) Affected</u></b> | All  |
| <b><u>Group Director</u></b>   | Ian Williams, Group Director Finance & Corporate Resources |

## 1. **Introduction**

- 1.1. This report provides the Pensions Committee with an introduction to the investment strategy review that will take place alongside the 2022 actuarial valuation. The Fund's investment consultant will also provide a brief overview during the Pensions Committee meeting.

## 2. **Recommendations**

### 2.1. **The Committee is recommended to:**

- **Note the report**

## 3. **Related Decisions**

- 3.1. Pensions Committee 15th June 2022 - Actuarial Valuation - Contribution Rates

## 4. **Comments of the Group Director of Finance and Corporate Resources.**

- 4.1. This paper provides the Committee with an introduction to the process for setting the Fund's investment strategy. Development of a robust investment strategy helps the Fund to take an ordered and prudent approach to the management of its assets, helping to manage the long term costs associated with the Pension Fund.
- 4.2. Spending time developing the investment strategy helps to ensure that the Pensions Committee are fulfilling their responsibilities as quasi Trustees of the Fund and that the Fund's investment objectives and policies are clearly set out in line with the Local Government Pensions Scheme (Management

and Investment of Funds) Regulations 2016

4.3. There are no direct financial implications arising from this report.

## 5. **Comments of the Director of Legal, Democratic and Electoral Services**

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 helps 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.

## 6. **Background to the Report**

6.1. 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.

6.2. The principal objective of the Fund is to pay benefits when they fall due; this objective should be met whilst also ensuring that employers' contributions remain as stable as possible. It is therefore vital that the investment strategy

is consistent with the Fund's contribution strategy and is not reliant on either unrealistically high estimated returns or on sudden contribution increases.

- 6.3. Three different broad asset types - growth, income and protection - can all help play a role in ensuring that that Fund is able to meet its principle objective. The asset types play the following roles:
- Growth assets - help generate sufficient returns to keep the cost of new benefits accruing reasonable
  - Income assets - help generate cash as the Fund requires
  - Protection assets - reduce risks of deficits emerging to protect against increases in secondary rates
- 6.4. The level of each asset type held by the Fund is likely to need to change over time as the Fund matures. Early stage funds will have a high proportion of active members (and therefore significant contribution payments), low levels of pensions in payment and a long time horizon - these funds can therefore focus on growth assets to generate returns. As funds mature, their income requirements are likely to increase as the proportion of active members reduces and pensioner numbers increase. Very mature funds, with a shorter time horizon and (hopefully) lower deficit are likely to focus on protection assets to protect gains and maintain affordable contributions.
- 6.5. The Fund's investment consultant will provide a brief overview of the strategy setting process at the Pensions Committee meeting and Members will have the opportunity to ask questions. A workshop is planned for early July to allow time for a more in- depth discussion on asset allocation and strategy setting prior to any formal decision making.

### **Appendices**

None

### **Background documents**

None

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