ITEM NO. 9

STATEMENT OF INVESTMENT PRINCIPLES UPDATE

Report by Chief Financial Officer

PENSION FUND COMMITTEE

04 December 2013

1 PURPOSE AND SUMMARY

1.1 **This report seeks approval of the updated Statement of Investment Principles for the Scottish Borders Council Pension Fund.**

2 BACKGROUND

2.1 The Local Government Pension Scheme (Administration) (Scotland) regulations requires administering authorities to prepare, maintain and publish a Statement of Investment Principles. The current Statement was last updated June 2010.

2.2 A review of the current Investment Principles was undertaken and reported to Committee in March 2013.

2.3 Appendix 1 provides an updated Statement of Investment Principles reflecting the recommendation agreed.

3 RECOMMENDATIONS

3.1 It is recommended that the Pension Fund Committee:

(a) approves the updated Statement of Investment Principles as set out in Appendix 1; and

(b) Notes a report will be presented to Members in March 2014 with proposals for keeping the current allocation to equity investments under review.

4 BACKGROUND

4.1 The current Statement of Investment Principles (SIP) was reviewed, updated and approved in June 2010. It is now considered appropriate to undertake a review of the funds investment principles to ensure they remain fit for purpose and allow the fund to respond appropriately to changing economic conditions, investment returns and future liabilities

4.2 LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, discloser and consultation. These are referred to as the "Myners Principles" and the reporting on compliance, as required by the LGPS Regulations, must be included in the Statement of Investment Principles.

4.3 **Myners Principle 2: Clear Objectives** states that:

- An overall investment objective(s) should be set out for the fund that takes account of the schemes liabilities, the potential impact on local tax payers, the strength of covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

and **Myners Principle 3: Risk and Liabilities** states that:

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

4.4 An authority can demonstrate compliance with these Myners Principles through the review of its investment objectives and the strategic asset allocation in light of updated actuarial valuations of the Fund's liabilities.

4.5 In September 2012 the Committee instructed a high level review of the current SIP to be undertaken. A report detailing the findings of the review and recommendations was presented to the Committee in March 2013. The agreed recommendation was to implement the previously agreed strategy of reducing equities to 65% and to consider, in the future, a further reduction to 60%. The move to 65% has now been achieved. .

5 Updated SIP

5.1 The SIP has been updated to reflect the agreement at the March 2013 Committee and is contained in Appendix 1.

5.2 The main areas of change in the SIP are detailed below:

(a) Section 4.24 – **Currency Risk**- updated to reflect new Manager and strategy change from 50% passive to 25% passive and 25% active currency hedging.

(b) Appendix 2 – **Strategic Asset Allocation** – updated to reflect new fund managers since 2010 and revised strategic asset allocation.

(c) Appendix 3 – **Investment Management Arrangements** – updated to include new fund managers and Multi Asset Alternative asset class.

5.3 The Committee in March also agreed the following:

"that the Committee consider, in principle, a further reduction of the equity allocation to 60% during 2013/14"

The current market conditions however do not support this move. It is proposed work is undertaken to develop some triggers targets, based on market conditions, which will be monitored. If market conditions breach the triggers, a review of equity allocation will be initiated and a report produced to Committee. A further report on the paper on this will be presented to Members at the March 2014 meeting.

6 IMPLICATIONS

6.1 Financial

(a) Aon Hewitt will assist officers in the development of the triggers targets which would highlight further reviews of the equity allocation. This will result a charge to the pension fund.

6.2 Risk and Mitigations

(a) The investment review proposed is part of the ongoing risk management framework to ensure that the strategic asset allocation is still fit for purpose in light of current and predicted economic and pension liability trends.

6.3 Equalities

(a) It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

6.4 Acting Sustainably

(a) There are no direct economic, social or environmental issues with this reports which would affect the Council's sustainability.

6.5 Carbon Management

(a) There are no direct carbon emissions impacts as a result of this report.

6.6 **Rural Proofing**

(a) It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 **Changes to Scheme of Administration or Scheme of Delegation**

(a) No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

7 CONSULTATION

7.1 The Head of Corporate Governance, the Head of Strategic Policy, the Head of Audit and Risk, the HR Manager and the Clerk to the Council have been consulted on the report and their comments have been incorporated.

Approved by

David Robertson
Chief Financial Officer **Signature ....**

Author(s)

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Background Papers:
Previous Minute Reference: Pension Committee, 13 September 2013

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