
FUND STRATEGY STATEMENT AND STATEMENT OF INVESTMENT PRINCIPLES 2017

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

22 June 2017

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) for 2017. Both these documents should be kept under review and be updated and approved annually in line with the Pension Fund's business plan. This report discharges that requirement.**
- 1.2 The Pension Fund is required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles. Following the appointment of KPMG as the Fund's Investment Advisor a full review was undertaken of the strategic asset allocation with the revised allocation approved on 15th September 2016. The asset allocation was further adjusted on 8th March 2017 to include an allocation for infrastructure investment.
- 1.3 **Appendix A** contains the Funding Strategy Statement
- 1.4 **Appendix B** contains the revised Statement of Investment Principles (SIP) for approval.

2 RECOMMENDATIONS

- 2.1 **It is recommended that committee approve:**
 - (a) **the Funding Strategy Statement set out in Appendix A and**
 - (b) **the Statement of Investment Principles set out in Appendix B**

3 BACKGROUND

- 3.1 It is a requirement of the Local Government Pension Scheme (LGPS) Regulations that the Pension Fund maintains a Statement of Investment Principles (SIP) and keeps this under review.
- 3.2 Local Government Pension Scheme (LGPS)GPS administering authorities are also required by regulation to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are referred to as the "Myners Principles" and the reporting of compliance with these principles, must be included in the SIP.
- 3.3 **Myners Principle 2: Clear Objectives** states that:
1. 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.

- 3.4 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.
- 3.5 The 2014 Valuation of the Fund reported a 101% funding position in relation to the estimated assets held against future liabilities. This is a strong position for the Fund and it is important to continue to ensure that this position is maintained in the long term in order to meet the Fund's primary aim:

"To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis."

- 3.6 Following the appointment of KPMG as investment advisor in March 2016 a full review was undertaken of the Funding Strategy and the strategic asset allocation. The outcome of this review was approved by the Joint Pension Fund Board and Committee on 15 September 2016 with a further change on 8th December 2016 for the inclusion of infrastructure.

4 FUNDING STRATEGY STATEMENT

- 4.1 **Appendix A** contains the Funding Strategy Paper as approved by the Pension Fund Committee on 18 June 2015. The review undertaken during 2016 did not result in any changes to the Funding Strategy Statement.

5 STATEMENT OF INVESTMENT PRINCIPLES

- 5.1 **Appendix B** contains the revised Statement of Investment Principles (SIP).
- 5.2 While it is not proposed to change the Funding Objectives set out in the SIP a number of revisions to the document are set out below.
- 5.3 The main areas of change in the SIP are detailed below:
- (a) Sections 4.10 – 4.18 Investment Management Arrangements
This has been updated to reflect the changes in investment managers since the previously approved SIP.
 - (b) Section 4.24 Currency risk has been updated to reflect removal of currency hedge arrangements in December 2016. The fund is no longer hedged against fluctuations in the value of its overseas investments.
 - (c) Section 5.1 Types of investments has been updated to reflect the inclusion of Private credit and Infrastructure assets...
 - (d) Para 6.7 has been added to reflect the decision of elected members to encourage all Fund Managers to sign the United Nations Principles of Responsible Investments stewardship code.
 - (e) Appendix 3 – Strategic Asset Allocation
Updated to reflect the revised strategic asset allocation approved on 8th December 2016 and new Fund managers appointed since the previously approved SIP.
 - (f) Appendix 4 – Investment Management Arrangements
Updated to reflect revised strategic asset allocation approved on 8th December 2016 and new Fund managers appointed since the previously approved SIP.

6 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ISSUES

- 6.1 There has recently been significant external interest in the Fund's approach to Socially Responsible investment, in particular the approach to investment in firms who may be involved in the manufacture of components which may be used in the development of armaments and in companies whose activities are considered to have a potentially significant impact on the environment.
- 6.2 Work has also been undertaken during 2016 resulting in the decision to encourage all Fund Managers to sign the UNPRI stewardship code. Further work has been identified within the Business Plan for 2017 that will enhance the Fund's approach to socially responsible investment ensuring it continues to meet its fiduciary duties.

7 IMPLICATIONS

7.1 Financial

- (a) , There may be costs involved in undertaking a review of the Fund's approach to Socially Responsible Investment, if so estimates of these costs will be included in a future report which will seek approval for the approach to be taken.
- (b) The Statement of Investment Principles sets out the strategic framework to deliver the target returns required to meet the Fund's funding objectives. Successful delivery of these principles should ensure the stability of the funding position of the Pension Fund and therefore the stability of employer contribution rates.

7.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

7.3 Equalities

An Equalities Impact Assessment has been carried out on this proposal and it is anticipated that there are no adverse equality implications.

7.4 Acting Sustainably

Social and environmental issues are set out in Section 6 of this report which demonstrates that the Council is acting sustainably.

7.5 Carbon Management

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

7.6 Rural Proofing

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

7.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

8 CONSULTATION

8.1 The Monitoring Officer, the Chief Legal Officer, Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted and comments incorporated within the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Capital & Investment Manager

Background Papers:

Previous Minute Reference: Pension Fund Committee, 8 December 2016

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Capital & Investments Team can also give information on other language translations as well as providing additional copies.

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