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## **STATEMENT OF INVESTMENT PRINCIPLES 2015**

**Report by Chief Financial Officer**

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### **JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD**

**18 June 2015**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **This report proposes the revised Statement of Investment Principles.**
- 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. The 2014 Triennial Valuation of the Fund, transition to new fund managers during 2014/15 and the changes in the LGPS governance regulations has triggered a review and revision of the existing document.
- 1.3 **Appendix A** contains the revised Statement of Investment Principles for approval.
- 1.4 This report also proposes that, following on from the strong results reported in the 2014 Triennial Valuation, a full investment strategy review is undertaken by an external consultant.
- 1.5 In light of the recent external focus on topics related to socially responsible investment it is proposed that an approach to reviewing the Fund's socially responsible investment policy should be investigated.

#### **2 STATUS OF REPORT**

- 2.1 This report has been circulated to consultees within the recommended timeframe and as a result their comments have not been able to be included in the report, but will be presented to the Joint Committee and Board meeting. The late preparation of the report is related to the significant work involved in producing all the final year end reports and securing the membership of the new Board.

### **3 RECOMMENDATIONS**

#### **3.1 It is recommended that:**

- (a) the Statement of Investment Principles as set out in Appendix A is approved;**
- (b) a procurement for investment consultancy support to the Fund is approved;**
- (c) following this appointment a full strategic review of the investment strategy of the Fund is undertaken and oversight of this review will be undertaken by the Pension Fund Investment & Performance Sub-Committee prior to recommendations being brought to Committee for approval by 31 March 2016; and**
- (d) a review of the Fund's approach to environmental, social and corporate governance for the investments it holds is undertaken and that a report outlining the approach to be taken is brought to Committee for approval.**

## 4 BACKGROUND

4.1 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, disclosure 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 SIP.

4.2 **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.

4.3 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.

4.4 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.

4.5 The 2014 Valuation of the Fund has 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."*

4.6 During 2014/15 the Fund transitioned its Fixed Income/Bonds Mandate to M&G and the UBS Global Equity Mandate to Harris Associates. In addition, £4m of surplus cash was invested into the UBS Property Mandate. These decisions were all considered by the Committee prior to execution.

- 4.7 Following the completion of the 2014 Valuation, manager transitions and the changes in the LGPS Regulations over the past 2 years, it is appropriate to review and update the SIP. The previous SIP was approved by the Pension Fund Committee on 4 December 2013 following the 2011 Valuation and a high level review of the investment strategy/strategic asset allocation.

## **5 STATEMENT OF INVESTMENT PRINCIPLES**

- 5.1 **Appendix A** contains the revised Statement of Investment Principles (SIP).
- 5.2 The Funding Objectives set out in the SIP are not proposed to change, nor the strategic asset allocation to asset classes.
- 5.3 The main areas of change in the SIP are detailed below:
- (a) Section 2 – Governance  
This section has been comprehensively updated to reflect the changes through the introduction of the Pension Board and the Pension Funds Investment & Performance Sub-Committee.
  - (b) Sections 4.10 – 4.18 Investment Management Arrangements  
This has been updated to reflect the changes in investment managers since the previously approved SIP and the change in the Fund’s target return following the completion of the 2014 Triennial Valuation.
  - (c) Section 4.20 has been updated to reflect the role of the new Pension Fund Investment & Performance Sub-Committee.
  - (d) Section 6.8 has been added to reflect the quarterly reporting on voting that is part of the AON Hewitt report.
  - (e) Section 7 has been amended to clarify the position of the Fund in relation to the role of the Council’s Audit and Risk Committee.
  - (f) Appendix 5 – Statement of Compliance with Myners Principles  
This has been updated mainly to reflect:
    - the introduction of the Pension Board and Investment & Performance Sub-Committee.
    - reference to the training policy
    - reference to the business plan
    - update to the Performance Assessment principle compliance statements

## **6 INVESTMENT STRATEGY REVIEW**

- 6.1 In light of the strong funding position and the fact that the last full investment strategy review involving asset and liability modelling was undertaken during 2008 and agreed in 2009, it is appropriate for the Fund to initiate a full strategy review using external investment consultants.

- 6.2 AON Hewitt, the current investment consultant, has been engaged by the Pension Fund since 2008. It is good practice to re-tender these contracts on a periodic basis to ensure best value, and it is therefore proposed to initiate a procurement process for the Fund's investment consultant and implement this prior to undertaking a full review of the Fund's strategy.
- 6.2 It is proposed that oversight of this review is delegated to the Pension Fund Investment and Performance Sub-Committee. The detailed recommendations will be presented to the Sub-Committee, and once they have scrutinised them they will be brought to the Joint Meeting of the Pension Fund Committee and Pension Board.

## **7 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ISSUES**

- 7.1 There has been significant external interest in the Fund's approach to Socially Responsible investment, in particular the approach to tobacco and activities with significant environmental impacts.
- 7.2 The last consultation and review of the Fund's approach to these issues was undertaken in 2010. At that time there was a very low Fund membership interest in changing to a more proactive approach in this area.
- 7.3 It is proposed that Fund undertakes a review to identify the most appropriate policy towards these issues and consult on the position to be taken. Should the review identify that it is appropriate to change the current approach an impact assessment for the Fund would be required to be undertaken to ensure that the full implications of any changes are understood especially in relation to the delivery of the key aims and objectives of the Fund.
- 7.4 It is proposed that officers will review what best practice exists for undertaking such a review and bring back a recommended approach for approval.

## **8 IMPLICATIONS**

### **8.1 Financial**

- (a) The undertaking of a full investment review will be an additional cost to the Fund: however it should support the maintenance of long term stability of the Fund going forward for both members and employers.
- (b) Depending on the approach to be taken, 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 the report being brought to get approval for the approach to be taken.
- (c) 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 Fund and therefore of the employer contribution rates.

## 8.2 **Risk and Mitigations**

- (a) 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.

**8.3 Equalities**

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

**8.4 Acting Sustainably**

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

**8.5 Carbon Management**

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

**8.6 Rural Proofing**

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

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

- (a) No changes are required as a result of this report.

**9 CONSULTATION**

- 9.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and their comments will be communicated at the meeting.

**Approved by**

**David Robertson**  
**Chief Financial Officer**

**Signature .....**

**Author(s)**

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**Background Papers:**

**Previous Minute Reference:** Council, 2 April 2015

**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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