

INVESTMENT STRATEGY STATEMENT

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Board before taking effect.

Recommendation: That the Board considers the Investment Strategy Statement and considers whether it wishes to make any comments to the Investment and Pension Fund Committee.

1. Introduction

- 1.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, came into effect on 1st November 2016. The new regulations require each LGPS administering authority to put in place an Investment Strategy Statement by 1st April 2017. The Investment Strategy Statement replaces the previous requirement for the Fund to publish a Statement of Investment Principles.
- 1.2. The Investment Strategy Statement required by the regulations must include:-
 - (a) A requirement to invest 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 measured 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 or 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 rights (including voting rights) attaching to investments.
- 1.3. The Investment Strategy Statement (ISS) has been constructed using the policies previously contained in the Statement of Investment Principles and also takes into account the strategic asset allocation review undertaken by Mercer and the impact of the pooling proposals.
- 1.4. The Investment Strategy Statement was approved by the Investment and Pension Committee on 24th February 2017, and is attached as Appendix 1.

2. Strategic Asset Allocation and Risk Management

- 2.1. Under the previous investment regulations, prescribed limits were set out for different types of investment. These limits have been abolished and replaced by a new prudential framework, within which the fund must invest in a diversified portfolio of investments. The ISS must set out clearly the balance between the different types of investments, and set out the acceptable range for each asset class. This will be based on the Fund's assessment of risk and its asset allocation policy.
- 2.2. The regulations also state that administering authorities must take proper advice in drawing up their ISS. This will include advice from the Fund's professional officers, its Actuary, and its Independent Investment Advisor. The recent asset allocation review conducted by Mercer is also an important source of advice for the ISS.
- 2.3. Section 2 of the ISS sets out the Fund's investment beliefs, and its strategic asset allocation. The strategic review carried out by Mercer proposes a direction of travel over the next five years, looking at the current scenario and how the asset allocation should develop following the transition to Brunel. The ISS sets out the target allocations proposed for 2017/18, and then a medium term target based on the direction of travel set out in Mercer's report, and the advice of the Fund's officers and the Independent Advisor.
- 2.4. Section 3 of the ISS sets out the Fund's approach to risk and the ways in which risks are to be measured and managed. This section sets out the key risks facing the fund and how they are to be managed. The investment strategy needs to be set in such a way that appropriate risk is taken to generate the required returns, whilst minimising volatility and downside risk as much as is feasible.
- 2.5. Section 4 of the ISS sets out the Fund's policy in relation to the pooling agenda. The Fund is committed to pooling its investments through the Brunel Pension Partnership Limited. The proposed arrangements for the Brunel pool have been formulated to meet the requirements of the LGPS (Management and Investment of Funds) Regulations 2016 and Government guidance, and have been given the go-ahead from the Minister for Local Government responsible.

3. Responsible Stewardship

- 3.1. The regulation and guidance on publishing an ISS also require administering authorities to set out their policies on responsible stewardship and environmental, social and governance (ESG) factors. These policies are set out in sections 5 and 6 of the ISS. For the most part this is a restatement of existing policy contained in the Fund's current Statement of Investment Principles. It also draws on the investment principles drawn up for the Brunel Pension Partnership, agreed by the Committee as part of the pooling submission.
- 3.2. The Fund's primary responsibility is to seek to obtain the best financial return that it can for its members. However consideration of ESG issues is a key consideration in analysing risk which may have an impact on financial returns. The Fund also has a duty to be a responsible shareholder and asset owner, and to ensure that its shares are voted appropriately. The policies that have been in the Statement of Investment Principles for several years have demonstrated the Devon Fund's commitment to being a responsible shareholder, but the creation of the Brunel Pension Partnership will provide more resource to ensure that these policies are carried out and monitored more effectively.
- 3.3. The ISS also sets out how the Fund complies with the Myners Principles, which were established following a review of institutional investment by Lord Myners in 2000, and then revised in 2008.

4. Conclusion

- 4.1. The guidance requires that the Investment Strategy Statement should be revised at least every three years, and when any significant changes are made to the Fund's investment strategy. The move to the new investment pooling arrangements is likely to mean that the ISS will need to be reviewed on a more regular basis until the transition is complete.
- 4.2. Members of the Pension Board had the opportunity to debate and feed into the strategic investment review conducted by Mercer at a seminar held in February. The Board is now invited to consider the Investment Strategy Statement and whether it wishes to make any further comments to the Investment and Pension Fund Committee.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

Contact for Enquiries: Dan Harris

Tel No: (01392) 382520 Room G99