

STATUTORY STATEMENTS - STATEMENT OF INVESTMENT PRINCIPLES

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 notes the report and considers whether it wishes to make any comments to the Investment and Pension Fund Committee.

1. Introduction

- 1.1. Local Government Pension Scheme Regulations require Devon County Council, as the Administering Authority, to prepare, maintain and publish a number of Statutory Statements. This report sets out the requirements of the Statutory Statements and then focuses in greater detail on the Statement of Investment Principles.

2. Statutory Statements

- 2.1. The Statutory Statements are as follows:
- 2.2. Statement of Investment Principles
The Statement of Investment Principles sets out the basis on which the Devon Fund plans to invest the scheme assets. This includes the asset allocation policy, attitudes to risk, policies on engagement, social and ethical issues and states how the fund complies with the Myners Principles.
- 2.3. Funding Strategy Statement
The Funding Strategy Statement explains the funding objectives of the Fund. This includes how the costs of the benefits provided under the Local Government Pension Scheme ("LGPS") are met through the Fund, the objectives in setting employer contribution rates and the funding strategy that is adopted to meet those objectives.
- 2.4. Communications Strategy Statement
The Communications Strategy Statement sets out the Fund's policies on the provision of information and publicity about the Scheme to members, representatives of members and employing authorities. It sets out the format, frequency and method of distributing such information or publicity; other key organisations that we communicate with; our values in relation to communications; and the professional expertise available to the Fund.
- 2.5. Governance Policy and Compliance Statement
The Governance Policy sets out the governance arrangements for the Fund, including the make-up of the Investment and Pension Fund Committee, and an outline of the tasks delegated to the Committee and to the Fund's officers. The Compliance Statement sets out an analysis of the Fund's compliance with the latest guidance issued by the Secretary of State for Communities and Local Government.
- 2.6. It is within the remit of the Devon Pension Board to ensure that all of the required Statutory Statements are in place and that they are fit for purpose. It is therefore proposed that a Statutory Statement is presented at each future meeting of the Board, commencing with consideration of the Statement of Investment Principles.

3. Statement of Investment Principles

- 3.1. Since July 2000, all pension funds are required to prepare, maintain and publish a Statement of Investment Principles (SIP). This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken into account in so doing.
- 3.2. The Devon County Council Pension Fund has had an approved Statement of Investment Principles since February 2000. The latest version is made available on the Council's website and a copy is attached at Appendix 1.
- 3.3. The Statement of Investment Principles (SIP) outlines the Fund's investment strategy, and how the risk and return issues have been managed relative to the Fund's investment objectives. It should be read in conjunction with the Funding Strategy Statement (FSS) which sets out how solvency and risks will be managed with regard to the underlying pension liabilities.
- 3.4. The SIP is reviewed regularly and covers the following areas:
- 3.5. Decisions Takers
This section sets out the roles and responsibilities of those involved in the running of the Devon Pension Fund. The decision takers include Devon County Council (as the Administering Authority), the Investment and Pension Fund Committee, the Pension Board, the Independent Investment Advisor, the County Treasurer, Investment Managers and the Fund Actuary.
- 3.6. Risk and Reward
In order to generate sufficient returns on investments, Pension Funds are by nature required to take considered risks. This section details the short-term and long-term risks identified by the Fund, and highlights any controls and processes put in place to mitigate the level of risk.
- 3.7. Investment Principles
This section states the types of investments that the Fund is permitted to invest in, including the strategic allocation to asset classes, expected return on investments, realisation of investments and stock lending.
- 3.8. Corporate Governance – Effective Engagement
The Devon Pension Fund is fully supportive of the UK Stewardship Code, published in July 2010, which aims to enhance the quality of engagement between asset managers and companies to improve long-term risk-adjusted returns to shareholders. This section sets out the Fund's policy in respect of the UK Stewardship Code.
- 3.9. Corporate Governance – Social, Environmental and Ethical Issues
This section sets out the principles that the Fund has adopted in respect of the retention and realisation of investments on the grounds of social, environmental and ethical issues.
- 3.10. Compliance with the Myners Principles
In 2001, Paul Myners was commissioned by HM Treasury to produce a report regarding institutional investors in the UK. The Government was concerned that institutional investors were giving insufficient attention and resources to their holdings in non-listed companies. The report addressed this, in particular concerning pension fund trustees and fund managers. Within the review, Myners set out principles that he believed to be best practice for the governance of pension schemes.
- 3.11. The Fund has considered the 6 Myners Principles and is compliant with the spirit of these recommendations.

4. Recent amendments to the Statement of Investment Principles

- 4.1. Two changes have occurred recently that have had an impact on the SIP; the creation of the Pension Board and the revised strategic asset allocation resulting in the appointment of UBS to manage an alternative indexation mandate. The SIP has been amended to reflect these changes.
- 4.2. Section 2 of the revised SIP headed “Decision Makers” now includes a paragraph on the Pension Board. In addition Section 7 on “Compliance with the Myners Principles” includes reference to the Pension Board under “1. Effective Decision Making”.
- 4.3. Section 4 of the SIP, headed “Investment Principles”, includes a description of the strategic asset allocation under “3. The balance between different types of investment”. While the headline figures have not changed, the Committee agreed to amend the asset allocation within Equities such that 40% of the Fund should now be allocated to passive equity funds, with 20% of that allocation (8% of the total Fund) now allocated to an alternative indexation mandate. This section has therefore been rewritten to reflect that change.
- 4.4. In addition, the decision to appoint UBS to the Alternative Indexation mandate required a further change in relation to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Those regulations prescribe limits on certain type of investments that should not be exceeded. The regulations specify a lower limit and a higher limit. The lower limit should not be exceeded unless the Fund decides to adopt the higher limit, and includes a statement to that effect in the SIP.
- 4.5. Among the prescribed limits is a limit on investments in “any single insurance contract”. The investments managed by UBS, both the longstanding passive UK tracker fund and the new alternative indexation investment, are managed as life funds, and therefore fall under the definition of an insurance contract. The new alternative indexation mandate has been agreed with UBS as an amendment to their existing Investment Management Agreement with the Fund and takes the total proportion of the Fund managed through that agreement to around 27%, above the lower limit of 25%. Therefore the SIP now includes a statement that the Fund has adopted the upper limit of 35% in relation to a single insurance contract.
- 4.6. In addition, Appendix B has been amended to include the new UBS mandate and to remove the previous Sarasin mandate which was terminated in 2014.

5. Conclusion

- 5.1. The Board is asked to note the report and to consider whether it wishes to make any comments to the Investment and Pension Fund Committee.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
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