

INVESTMENT STRATEGY REVIEW

Report of the County Treasurer

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

Recommendation: (1) that the Committee approves the commissioning of an external review of the Fund's investment strategy and strategic asset allocation;
(2) that an exemption from tendering be sought to appoint Mercer to carry out the review;
(3) that the Committee approves the specification and strategic objectives as set out at Appendix 1 to this report.

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### **1. Introduction**

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require each LGPS administering authority to have in place an Investment Strategy Statement. 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.
- 1.2 While a number of changes have been made to the Investment Strategy Statement, in particular the policies on stewardship and climate change, and also tweaks to the strategic asset allocation, it is now three years since the last external major review of the investment strategy carried out by Mercer investment consultants. Therefore, it would be good practice to commission a further review, which will then feed into the assumptions used in the 2022 Triennial Actuarial Valuation.

### **2. Proposed Review**

- 2.1 The previous external review was conducted by Mercer, a firm of investment consultants with extensive knowledge of the Local Government Pension Scheme. They were initially appointed after a mini-competition using a framework agreement set up by National LGPS Frameworks hosted by Norfolk County Council. While it would be possible to undertake a further mini-competition under the framework, there are advantages to reappoint Mercer without going through a competitive process, as set out below:

- Mercer have significant background knowledge from the previous reviews undertaken which will assist with the current proposed review.
- This will save significant time and resource in conducting a competitive procurement exercise. Procurement resources within Devon County council are currently stretched and it would be difficult for them to resource a competitive procurement.
- The review can commence more quickly than would be possible if a competitive procurement process had to be undertaken prior to appointment.

2.2 Devon County Council Procurement Services have advised that an exemption to tendering would need to be agreed in order to appoint Mercer without going through a competitive process.

2.3 Under Part 7 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019, issued by the Competition and Markets Authority:

*“Pension Scheme Trustees must not enter into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continue to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy Provider.”*

2.3 For the purposes of this regulation the Investment and Pension Fund Committee act as quasi-trustees, and therefore need to agree strategic objectives for the appointment. Essentially, these also represent the specification of the contract, and what the review will be expected to cover. The specification / strategic objectives proposed are set out at Appendix 1. This also includes a proposed timetable for the review.

2.4 The specification is broadly similar to that agreed for the last review. However, new regulations are likely to be issued in the near future that will require LGPS funds to comply with TCFD (Taskforce for Climate-related Financial Disclosures) reporting requirements. While the Fund already does significant reporting on its carbon footprint and climate change policies, TCFD requirements will include scenario analysis on the potential impact of climate change on the Fund’s investments. Therefore, it is proposed to include this within the review specification.

### **3. Conclusion**

3.1 The Committee is asked to approve the commissioning of an external review of the Fund’s investment strategy and strategic asset allocation, and the seeking of an exemption from tendering in order to appoint Mercer to carry out the review.

3.2 The Committee is further asked to approve the contract specification at Appendix 1, which also constitutes strategic objectives for the appointed consultants as required by the Competition and Markets Authority.

Mary Davis  
County Treasurer

Electoral Divisions: All

Local Government Act 1972:

List of Background Papers: Nil

Contact for Enquiries: **Mark Gayler**

Tel No: **01392 383621** Room: **G97**

## Appendix 1

### **Devon Pension Fund Strategic Investment Review Specification and Strategic Objectives for Consultants**

1. The Devon County Council Pension Fund is seeking an investment strategy review, to advise on the Fund's investment strategy to meet the fund liabilities, including a formal report and a discussion meeting with officers and a presentation to the Investment and Pension Fund Committee.
2. The Triennial Actuarial Valuation of the Fund as at 31 March 2022 is due to take place over the year following the review. It is intended that the results of the review should be taken into account in the assumptions to be used in that review. In particular, any revisions to the strategic asset allocation would be taken into account in determining the appropriate discount rate. The review should therefore take into account the methodologies used by the Fund Actuary and the best information available on the current funding position, making use of the quarterly funding updates provided by the Fund Actuary.
3. The review should make use of significant data on investment markets, and use the appropriate modelling software to analyse the data, in order to inform the review's conclusions.
4. The review should assess the appropriate strategic asset allocation for the Devon Fund, including the split between "growth" assets and "fixed interest" type assets, geographical allocations, the balance between active and passive management of assets, the balance between liquid and illiquid asset classes and currency hedging issues. This should take into account the structure of the Fund's liabilities and cashflow profile, appropriate risk management and diversification, and the setting of appropriate performance targets and benchmarks.
5. The review should concentrate on the investment strategy rather than investment manager related activities or functions which are the responsibility of the Brunel Pension Partnership. The review will need to take into account the availability of investment solutions through the Brunel Pension Partnership when considering the practicality of implementing of any revisions to the investment strategy.
6. The outcome of the review would be the provision of a formal report on an investment strategy review, which must include, but not necessarily be limited to, providing advice on:
  - (a) Strategic Asset Allocation in the context of the current funding position.
  - (b) Risk management in the context of the current funding position.
  - (c) Scenario analysis in respect of TCFD (Taskforce for Climate-related Financial Disclosures) requirements.
  - (d) The issues outlined in paragraph 4 above.

7. The report should be supplemented by narrative that can be used to update the Fund's Investment Strategy Statement, including a draft section on risk measurement and management.
8. The review should include provision for up to two meetings with officers and the Fund's Independent Investment Advisor to discuss the findings of the review, a presentation to members of the Investment and Pension Fund Committee and the Devon Pension Board at a special meeting set up for the purpose, and attendance at the Investment and Pension Fund Committee where the final report will be considered. Attendance may be required in person or virtually at the discretion of the Devon Pension Fund.

### Outline Timetable

October 2021 – Work on review to commence. Initial meeting between Devon Pension Fund officers and the consultant.

Early January 2022 – Meeting with Pension Fund officers to discuss progress and likely outcomes of review.

Weds 2 February 2022 (pm) – Presentation to Investment and Pension Fund Committee and Devon Pension Board members.

Friday 25 February 2022 – Formal report to Investment and Pension Fund Committee for decision