

PENSIONS COMMITTEE
17 MARCH 2020**INVESTMENT STRATEGY STATEMENT UPDATE**

Recommendation**1. The Chief Financial Officer recommends that:**

- a) the Fund's 2020 Investment Strategy Statement (ISS) Appendix 1 be agreed; and**
- b) The Committee consider how the Employers will be monitored within the High, Medium and Low risk investment strategies set out in Appendix 2.**

Background

2. The LGPS Investment Regulations that came into effect from 1 November 2016 required all funds to publish a new ISS by 1 April 2017. The Fund's 2017 ISS was designed in collaboration with the seven other funds within LGPS Central to ensure a consistent approach to investment beliefs and responsible investment beliefs.

3. The current 2018 ISS was approved by the Committee on the 22 June 2018 and under Regulation 7(6) and (7); the ISS must then be kept under review and revised from time to time and at least every three years.

4. The Department for Communities and Local Government (DCLG) also previously outlined guidance on preparing and maintaining an Investment Strategy Statement which are reiterated in section 3 below.

Investment Strategy Statement Guidance Requirements

5. Regulation 7(1) requires an Administering Authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS 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.

Investment Strategy Statement proposed amendments

6. LGPS Central and the Funds Independent Investment adviser have provided support in reviewing the existing 2018 ISS and the recommendation from the Hymans Strategic Asset Allocation report that was presented to Committee in March 2019 have also been incorporated in particular their suggested equity beliefs.

7. The ISS has been updated to particularly strengthen the 'Stewardship and Responsible Investment (RI) areas and also introduce the proposed 'Investment Pots' and have 3 Investment strategies being High, Medium and Low risk investment strategies.

Investment Strategies

8. In order that the Fund delivers on its key objectives (ensuring that each employer takes the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost), the Fund has introduced three distinct investment strategies (High, Medium and Low risk). These are detailed in Appendix A of the attached proposed 2020 ISS.

9. Each investment strategy has its own strategic asset allocation benchmark. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating required long-term returns, whilst taking account of market volatility, risk and the nature of the Fund's liabilities.

10. The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. The Fund undertakes a fundamental review of the strategic asset allocation every three years following actuarial valuations. The Fund also monitors compliance with this statement at least quarterly and monitors progress towards the long-term funding objective for relevant groups of employers on a regular basis.

11. In addition to the fundamental review of the strategic asset allocation undertaken every three years, the Fund will monitor progress of employers within these Strategies on a regular basis. This gives the Fund the opportunity to adjust the strategic asset allocation in the event that a group of employers are ahead or behind their funding plan.

12. The table below provides a snapshot provided by the actuary of the value of assets and liabilities at the time of the valuation and the number of employers that are in the different investment strategies.

Strategy	High	Medium	Low	Total
Assets (£m)	2,366	361	61	2,788
Liabilities (£m)	2,688	369	59	3,116
Proportion (based on liabilities)	86%	12%	2%	100%
Number of Employers	141	22	20	183

Note Parish Councils have been grouped together as 1 overall employer in the table above and the low risk employers mainly relate to orphaned employers

13. The actuary has provided some summarised information on how the Employers will be monitored and how often they will be reviewed in Appendix 2 below. A full explanation of the process undertaken to assess employer funding progress will be provided in the Fund's Investment Risk Management document which will be published on the website after further dialogue and agreement with the actuary.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

Tel: 01905 846908

Email: RWilson2@worcestershire.gov.uk

Supporting Information

- Investment Strategy Statement - Appendix 1
- High level proposal of how Employers will be reviewed within the suggested Investment strategies – Appendix 2

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.