

Non-Executive Report of the: PENSIONS COMMITTEE 16 March 2017	
Report of: Zena Cooke, Corporate Director, Resources	Classification:
Investment Strategy Statement Effective 1st April 2017	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Reason For Urgency / Lateness

As legislation requires the Council Pension Fund to have an up-to-date approved Investment Strategy Statement in place from 1st April 2017, it is necessary for this report to be considered at the March 2017 meeting as the next committee is not until after the financial year has commenced. Final amendments to the report caused it to miss the intended publication deadline.

Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 introduced a new requirement for an Investment Strategy Statement (ISS) that needs to be approved by the Pension Committee. The ISS will come into effect from 1st April 2017. There is a further requirement that the Pensions Committee regularly reviews the ISS.

This report introduces the Investment Strategy Statement and provides the Committee with an ISS for approval.

Recommendations:

The Pensions Committee is recommended to:

- Approve the new Investment Strategy Statement as shown in Appendix 1.

1. REASONS FOR THE DECISIONS

- 1.1 The Pensions Committee act in the role of quasi trustees for the Pension Fund and are therefore responsible for the management of £1.31 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund. The management of the Fund's investment portfolio and the investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's pension undertakings, which are underwritten by statute.

- 1.2 The Administering Authority has various regulatory responsibilities to maintain and review policies in relation to its investment strategy and administration of the pension fund. This function has been delegated to the Pensions Committee; hence the Pensions Committee will annually review (as a minimum) and approve any amendments to the statutory policy statements as required by Local Government Pension Scheme regulations.
- 1.3 The administering authority will prepare and publish its investment strategy by having regard to the DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement.
- 1.4 Following consultation by Fund officers with the pension board, independent adviser, local authority employers such as admitted bodies, scheduled bodies and such persons as it considers appropriate, the administering authority will publish its investment strategy statement setting out its investment strategy.
- 1.5 The ISS will be revised and published whenever there is a material change in either the policy on the matters set out in the ISS.
- 1.6 The ISS should be completed and approved by the Pensions Committee after the completion of each formal valuation

2. ALTERNATIVE OPTIONS

- 2.1 The requirement to have the ISS and to regularly review is set out in the regulations therefore there is no alternative approach that can be adopted.

3. DETAILS OF REPORT

- 3.1 In November 2015, a consultation was issued by the Government on replacing and revoking the LGPS (Management and Investment of Funds) Regulations 2009. The aim of the new regulations was to lift existing restrictions on LGPS fund investment powers in order to make it easier for them to pool investments and access benefits of scale. The core principle has been to move to a *prudential approach*, as in the private sector. Accordingly, LGPS administering authorities are required to take full responsibility to determine appropriately diversified investment strategies that take risk into account.
- 3.2 New regulations (The LGPS (Management and Investment of Funds) Regulations 2016) affecting LGPS funds in England and Wales came into force on 1st November 2016, but give administering authorities until 1 April 2017 to publish their first Investment Strategy Statement (ISS) in accordance with the new rules.
- 3.3 The Department for Communities and Local Government (DCLG) had already, in September 2016, taken the rather unusual step of publishing its statutory guidance—before the Regulations became law. Effective dates aside, the legislation is all but identical to the draft version that was circulated for consultation purposes in November 2015.

- 3.4 The new Regulations exclude the current explicit limits on specified types of investment and, instead, charge administering authorities with determining the appropriate mix of investments for their funds and the trade-off for more freedom in the formulation of investment strategies is an obligation upon administering authorities to adhere to official guidance and broad powers allowing the Government to intervene if they do not.
- 3.5 The old regulation requiring that the Fund publish a Statement of Investment Principles (SIP) is replaced by Regulation 7, requiring that the Fund publishes an Investment Strategy Statement (ISS), by 1st April 2017. This ISS must cover:
- a. A requirement to use a wide variety of investments,
 - b. Authority's assessment of the suitability of particular investments & types of investments,
 - c. Authority's approach to risk, including how it's measured and managed,
 - d. Authority's approach to collaborative investment, including the use of collective investment vehicles and shared services,
 - e. Authority's environmental, social and corporate governance policy,
 - f. Authority's policy on the exercise of rights, including voting rights attached to the investments.
- 3.6 Members attention is drawn to the main changes from the old documents:
- a) ***The investment strategy must be in accordance with guidance issued by the Secretary of State*** – this guidance has been received and complied with.
 - b) ***Approach to collaborative investment (i.e. pooling)*** – this section will be updated again fully in March 2017 ahead of the required deadline for publishing the ISS (1st April 2017) and will be jointly considered along with the other London CIV pool fund partners.
 - c) ***The maximum percentage that will be invested in particular asset classes*** – the SIP already described the strategic asset allocation as set for the Investment Strategy, but a maximum has not been declared before. The logic for setting the maximums shown in the ISS is to allow sufficient flexibility for departure from the strategic asset allocation, whether this is due to asset valuation drift or for times of restructuring. Any significant strategic asset allocation benchmark changes in the future would trigger a revision and therefore restatement of the ISS.
- 3.7 The old regulation requiring administering authorities to state the extent to which they comply with Myners principles for investment decision making no longer applies. However, they should still have regard to the guidance. This section has been kept in the new ISS for Tower Hamlets Funds; with some minor amendments to keep the responses current (see Appendix A).

- 3.8 In order to ensure that a pool level approach is available for funds, an officer of the Fund worked with the London CIV's Stewardship working group to agreed customisable wording for all London funds with regards to the points on ESG considerations and exercise of voting rights, this approach has been incorporated in the Tower Hamlets Pension Fund ISS.
- 3.9 At the time of writing this report, the ISS was under consultation with the Fund's employers, the investment advisor and other interested parties. Following the consultation, proposed amendments from stakeholders will be taken to the Pensions Committee meeting of 16th March for consideration and addition to the ISS.

4.0 COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The initial ISS complies with the requirements of the regulations however it is important that this is kept under review and updated on a regular basis. There are no additional financial commitments arising from the recommendations within this report.

5. LEGAL COMMENTS

- 5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016. These Regulations represent an update to the LGPS (Management and Investment of Funds) Regulations 2009 and make a number of changes, including dispensing with the current, explicit limits on specified types of investment and instead charging administering authorities with determining the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not. Under regulation 8, the Secretary of State can direct the administering authority to make changes to its investment strategy; invest its assets in a particular way; that the investment functions of the authority are exercised by the Secretary of State and that the authority complies with any instructions issued by the Secretary of State or their nominee.
- 5.2 Regulation 7(5) of the 2016 Regulations, requires an administering authority to consult such persons as it considers appropriate on the proposed contents of its investment strategy. The Council has undertaken consultation on the strategy as set out in paragraph 1.4 above.
- 5.3 Effective dates aside, no changes have been made to these regulations since their publication in draft form in 2015. Both regulations and guidance have been published with this report as Appendices 1 and 2 respectively.
- 5.4 Regulation 7 of the 2016 Regulations requires the Administering Authority to formulate an Investment Strategy Statement in line with the guidance published by the Secretary of State. The first such statement must be published by 1st April 2017; the work described in this paper is essential to ensure that the Authority is able to comply with these regulations.

- 5.5 When performing its functions as administrator of the LBTH pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The management of the Fund's investment portfolio and the investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's pension undertakings, which are underwritten by statute.
- 6.2 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.
- 6.3 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 Achieving value for money should be and is an objective considered for the LBTH Fund as part of all policy reviews. Clearer, less bureaucratic policies and procedures aid in reducing administration costs. Additionally, adherence to regulatory and legislative requirements avoids potential expensive investigatory procedures and fines.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 The Fund through its participation with Local Authority Pension Fund Forum (LAPFF) supported progress towards an orderly transition to a low carbon economy. This is by actively working with other asset owners, fund managers, companies, academia, policy makers and others in investment industry.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 The Fund recognises that investment in fossil fuels and the associated exposure to potential 'stranded assets' scenarios may pose material financial risks. These risks apply not only to the Fund's investment portfolio but also, when considered on a wider scale, to long term global economic growth.
- 9.2 In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate. The recommendations provided on

this report are aimed at developing both a greater understanding of the risks and a set of strategies to help mitigate them.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report - NONE

Appendices

- Appendix 1 - Investment Strategy Statement Policy, February 2017
- Appendix 2 - Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016
- Appendix 3 – DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- As listed above as appendices

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