

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	24 March 2017	AGENDA ITEM NUMBER 14
TITLE:	Investment Strategy Statement	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Draft Investment Strategy Statement		

1 THE ISSUE

- 1.1 Revised investment regulations, the Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 came into effect from 1 November 2016. Regulation 7 requires all administering authorities to put in place an Investment Strategy Statement by 1 April 2017. There is also guidance accompanying the Regulations.
- 1.2 The new Investment Strategy Statement (ISS) replaces the requirement for the Fund to publish a Statement of Investment Principles.
- 1.3 The ISS must be consistent with the Funding Strategy Statement to ensure that there will be sufficient funds to meet the pension benefit payments as they fall due over time.
- 1.4 The regulations state that the ISS must be kept under review and revised from time to time particularly when there is a material change in risk, and reviewed at least every three years.

2 RECOMMENDATION

That the Committee:

- 2.1 Approves the new Investment Strategy Statement.
- 2.2 Notes that the statement will be revised following the Investment Review to be completed in 2017.
- 2.3 Notes that in line with regulations the draft Investment Strategy Statement has been circulated to the Pension Board for comments.

3 FINANCIAL IMPLICATIONS

- 3.1 There is provision in the 2016/17 budget for the advisors to review the draft Investment Strategy Statement.

4 INVESTMENT STRATEGY STATEMENT

- 4.1 This is the first Investment Strategy Statement (ISS) and it replaces the Statement of Investment Principles.
- 4.2 The aim of the new Regulations is to be less prescriptive and to transfer decisions and their considerations more fully to the Fund within a new prudential framework. In relaxing the regulatory framework and enabling investment decisions to be made with less central prescription, there is a safeguard included in the Regulations to ensure the new framework is used appropriately in the best long term interests of scheme members and other stakeholders.
- 4.3 The Regulations specially state that the ISS must include the following:
- 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 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.
- 4.4 The ISS must also set out the maximum percentage of the total value of all investments of fund money that will invest in particular investments or asset classes.
- 4.5 The guidance requires Funds set out their approach to social investments and sanctions.
- 4.6 The key aspects of the ISS are explained below.
- a) Strategic Allocation and Risk Management**
- (i) Under the previous regulations prescribed limits were set out for different types of investments. The new regulations have abolished these limits and has replaced them with a prudential framework, within which the must invest in a diversified portfolio of investments. The ISS must clearly set out the balance between the different types of investments and an acceptable range for each which will be based on the Fund's assessment of risk, return objectives and asset allocation policy.
 - (ii) The regulations state that administering authorities must take proper advice in drawing up their ISS. This will include advice from the Fund's officers, its professional investment and actuarial advisors and Independent Investment Advisor. The advice and papers from the latest investment review are also a source of advice.

- (iii) The statement sets out the Fund's investment beliefs underpinning its approach to investing and its strategic asset allocation. This will be updated following the investment review that is being undertaken in 1H17.
- (iv) The Fund's approach to risk and the ways in which these risks are managed and measured is also set out. It sets out the key risks facing the Fund as a result of the current strategy and the measures in place to manage them. The risks must reflect the Fund's risk appetite and the investment strategy must be structured to ensure appropriate risk is taken to generate the required returns, whilst minimising volatility and downside risk as much as is feasible.
- (v) The Regulations require the Fund to set out its approach to pooling. The Fund is committed to pooling its assets through the Brunel Pension Partnership Ltd. (BPP). The proposed pooling arrangements have been developed to meet the requirements of the Regulations and government guidance and have been given approval to proceed by the Minister for Local Government responsible for this initiative.

b) Responsible Investing and Stewardship

- (i) The regulation and guidance also require administering authorities to set out their policies on responsible stewardship and social, environmental and governance (ESG) factors. The key principles underlying the Fund's Responsible Investing policy are included which demonstrates the Fund's commitment to being a responsible investor and how financial risks arising from ESG factor will be assessed and managed. It also draws on the investment principles drawn up for BPP which were an integral part of the pooling submission and Full Business Case. The creation of BPP will provide more resource and expertise to ensure responsible investing and stewardship policies are carried out and monitored more effectively.
- (ii) The ISS also sets out how the Fund complies with the Myners Principles which were revised on 2008.

4.7 The ISS will be revised following the Strategic Review to be undertaken in 2017 and then reviewed regularly during the transition of assets to BPP.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

5.2 The Investment Strategy Statement is the main investment document that addresses the management of the investment risks identified in the Risk Register.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 Pension Board; Investment Consultant.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 Set out in the report.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

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Background papers	LGPS Regulations and Government Guidance
Please contact the report author if you need to access this report in an alternative format	