

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD	
MEETING DATE:	8 November 2018	AGENDA ITEM NUMBER
TITLE:	Draft Investment Strategy Statement Consultation	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft Investment Strategy Statement Appendix 2 – Regulations checklist		

1 THE ISSUE

- 1.1 The Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the regulations), require administering authorities to publish and maintain an Investment Strategy Statement (ISS). There is also statutory guidance accompanying the Regulations for funds to consider.
- 1.2 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 and that the assets are managed effectively to achieve this objective.
- 1.3 The statement sets out the Fund's strategic policies; it is not required to detail operational policies.
- 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. The current statement has been revised to include changes made to the Investment Strategy (specifically the Risk Management Framework and Equity Protection Strategy) and the development of the Brunel Pension Partnership.
- 1.5 At its meeting in September 2018 the Avon Pension Fund Committee (the Committee) agreed the draft statement for consultation with the Pension Board (see Appendix 1). The Board is asked to will review it for compliance with the regulations. Comments from the Board will be considered by Committee before approving the final statement at the December Committee meeting.

2 RECOMMENDATION

That the Board:

- 2.1 **Reviews the draft Investment Strategy Statement for compliance with the regulations.**
- 2.2 **Provides feedback to the Committee where there is non-compliance with the regulations and guidance.**

3 FINANCIAL IMPLICATIONS

3.1 There is provision in the 2018/19 pension fund budget for the advisors to review the Investment Strategy Statement.

4 INVESTMENT STRATEGY STATEMENT

4.1 The regulations provide a prudential framework within which the Fund is required to manage the investment assets in the best long term interests of scheme members and other stakeholders.

4.2 Regulation 7 requires each fund to publish its ISS which 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.

4.3 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.

4.4 There is also statutory guidance from MHDCLG on preparing and maintaining the ISS (issued July 2017) which funds must consider when preparing its ISS.

4.5 The key aspects of the ISS are:

- (i) The regulations provide a prudential framework, within which the Fund 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 and its professional investment and actuarial advisors.
- (iii) The Fund's approach to risk and the ways in which these risks are managed and measured are set out in the ISS. It identifies 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.

- (iv) The Regulations require the Fund to set out its approach to pooling. Brunel Pension Partnership (Brunel) pooling arrangements have been developed to meet the requirements of the Regulations and government guidance. The ISS explains how Brunel will manage the assets and deliver its service to the Fund; this will be continuously updated as more assets transition to Brunel and more services are provided. As at 30 June 2018, when this ISS was prepared, Brunel was not managing any assets on behalf of its clients.
- (v) The regulation and guidance also require administering authorities to set out their policies on responsible stewardship and social, environmental and governance (ESG) factors and social investing. 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.

5 CHANGES TO THE ISS

5.1 The key changes are:

- a) Greater explanation of the Liability Risk Management Strategy
- b) Equity Protection Strategy
- c) Increased detail on pooling and Brunel Pension Partnership.

5.2 A checklist against the regulations and guidance is set out in Appendix 2.

6 MONITORING, REVIEW & PUBLICATION

6.1 The ISS will be reviewed annually by the Committee to incorporate any strategic issues. The Committee has delegated operational and implementation changes to Officers in between annual reviews (will primarily relate to the Investment management structure as assets transition to Brunel).

6.2 The ISS is published on the Fund's website.

7 RISK MANAGEMENT

7.1 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.

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

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 Pension Board; Investment Consultant.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 For review only.

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	LGPS Regulations and Government Guidance
Please contact the report author if you need to access this report in an alternative format	