

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	26 JUNE 2020	AGENDA ITEM NUMBER 11
TITLE:	DRAFT REVISED 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 The Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the regulations), state that the Investment Strategy Statement (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 arising from the Fund's 2019/20 investment strategy review, specifically: increased allocations to private market assets, the development of climate change objectives and ensuing changes to the Fund's equity allocation. Updates have also been made to sections covering the Fund's risk management strategies and pooling.
- 1.2 The Regulations state that the administering authority must consult on the ISS as appropriate. The Pension Board will review the draft ISS for compliance with the regulations and a wider consultation will be done with scheme employers. Consultation responses will be considered by the Committee before agreeing the final version at the September 2020 Committee meeting.

## **2 RECOMMENDATION**

**That the Avon Pension Fund Committee:**

- 2.1 **Approves the draft Investment Strategy Statement for consultation, noting that:**
  - (i) The ISS has been prepared in line with the statutory requirements under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and associated guidance.
  - (ii) The ISS has been updated to reflect changes to the Fund's investment strategy following the 2019/20 investment strategy review.
  - (iii) A copy of the draft Statement will be published on the Fund's website.

### **3 FINANCIAL IMPLICATIONS**

3.1 This report contains no direct financial implications.

### **4 INVESTMENT STRATEGY STATEMENT**

4.1 To comply with the regulations and guidance, the ISS must include:

- a) A requirement to invest money in a wide variety of investments;
- b) The assessment of the suitability of particular investments and types of investments;
- c) The approach to risk, including the ways in which risks are to be measured and managed;
- d) The approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The 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 policy on the exercise of rights (including voting rights) attaching to investments.

### **5 CHANGES TO THE ISS**

5.1 The key changes are:

- a) Updates to reflect the Fund's approach to climate change and the resultant increase in the allocation to sustainable equities and renewable infrastructure and the setting of climate objectives aligning the investment strategy with the Paris Agreement goals.
- b) The increased strategic allocation to private market assets and the income generative and risk diversification benefits that result.
- c) Updated wording around the Fund's risk management strategies, reflecting the extension of its equity protection strategy to encompass emerging market equities and the implementation of its low risk corporate bond strategy.

5.2 The draft ISS at Appendix 1 replaces the existing ISS which was last reviewed and updated in December 2018 and once approved, will be published on the Fund's website.

### **6 RISK MANAGEMENT**

6.1 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. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.

6.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund.

## **7 CLIMATE CHANGE**

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon and Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## **8 OTHER OPTIONS CONSIDERED**

8.1 None.

## **9 CONSULTATION**

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

<b>Contact person</b>	Liz Woodyard, Investments Manager; Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)
<b>Background papers</b>	DCLG guidance on preparing and maintaining an investment strategy statement (September 2016) and associated guidance: <a href="https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement">https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement</a>
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