

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	25 September 2020	AGENDA ITEM NUMBER
TITLE:	Investment Strategy Statement	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Investment Strategy Statement Appendix 2 – Consultation Responses Appendix 3 – Checklist against regulations and guidance		

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 There has been a consultation with scheme employers and Trade Unions as well as publishing it on the website for wider comments. In addition, the Pension Board has reviewed the draft statement for compliance with the regulations. The Committee is asked to consider the Board's comments and those from the consultation respondents before agreeing the final version of the ISS for publication.

2 RECOMMENDATION

That the Committee:

- 2.1 **Notes the conclusion from the Pension Board that the Draft ISS complies with the regulations and statutory guidance.**
- 2.2 **Notes the comments from those that responded to the Consultation.**
- 2.3 **Approves the ISS for publication.**

3 FINANCIAL IMPLICATIONS

3.1 This report contains no direct financial implications.

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

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

4.3 The ISS is reviewed regularly in between the formal 3 year reviews. Officers will update the investment structure (Appendix 2 to the ISS) and any other implementation aspects as required.

5 REVIEW BY PENSION BOARD

5.1 The Pension Board is responsible for ensuring the Fund complies with the regulations, including those relating to its statutory documents such as the ISS.

5.2 A session to discuss the ISS with the Board was held during the consultation period. Following this session, the Board concluded as follows:

“The Avon Local Pension Board (LPB) has concluded that the revised Investment Strategy Statement complies with scheme rules.

The Board has reached this decision by:

- (i) Reviewing the draft revised ISS alongside the “Guidance on Preparing and Maintaining an Investment Strategy Statement” issued by DCLG in July 2017
- (ii) Preparing a list of written questions for the Group Manager, Funding, Investments & Risk
- (iii) Participating in a dedicated Training session, prepared and run by the Group Manager, Funding, Investments & Risk
- (iv) Comprehensively working through all the LPB member questions, in the session with the Group Manager, Funding, Investments & Risk
- (v) Reflecting and feeding back to the LPB Chair that there are no outstanding questions or concerns.”

5.3 A checklist against the regulations and guidance is set out in Appendix 3

6 CONSULTATION RESPONSES

6.1 There were three responses to the consultation. The responses are set out in Appendix 2. The consultation was undertaken against the backdrop of uncertain economic and market environments; as a result, the employers support the risk aware and cautious strategy currently adopted in order to protect members pensions and affordability for employers. The key risks highlighted by respondents are all included in the risk register and are closely monitored. Scrutiny of Brunel will evolve as the relationship progresses from a focus on asset transition and strategic development of the partnership will be key to delivering investment returns in the longer term.

6.2 Unison's response calls for the Fund to divest from fossil fuel companies within 5 years to align with the Paris goals. The Fund's strategy does not commit to such divestment; however, the ISS sets out the clear direction of travel regarding alignment with the Paris goals and clear milestones for review. In addition, the Committee will be undertaking the following over the next 2-3 years with the intention that the portfolio will be aligned with the Paris goals:

- a) A review of the equity portfolio to explore options to invest all equities on a sustainable or low carbon basis
- b) Assess what <2°C equity portfolios will look like ahead of the Paris Stocktake in 2022/23
- c) Where engagement does not succeed ahead of the Paris stocktake, begin selective divestment from laggard companies.

6.3 Having review the feedback from the respondents, there are no changes to the draft ISS following the consultation. Therefore, the Committee is asked to approve the ISS set out in Appendix 1 for publication.

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. 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.

7.2 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.

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

8 CLIMATE CHANGE

8.1 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 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.

9 EQUALITIES

9.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

10 OTHER OPTIONS CONSIDERED

10.1 None.

11 CONSULTATION

11.1 Formal consultation with Pension Board, scheme employers and members, investment consultant.

11.2 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, Group Manager, Funding, Investments & Risk: 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	