

Bath & North East Somerset Council

MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	12 June 2024	AGENDA ITEM NUMBER
TITLE:	INVESTMENT STRATEGY STATEMENT 2024	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Investment Strategy Statement Appendix 2 – ISS guidance Appendix 3 – ISS Checklist		

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.
- 1.2 The latest ISS was reviewed by the Pensions Committee in March 2024, at the conclusion of the investment strategy review.
- 1.3 The Pension Board are being asked to review the ISS for compliance with the regulations and statutory guidance and any feedback will be considered by Committee.
- 1.4 The ISS checklist is included in Appendix 3 to assist the Board.

2 RECOMMENDATION

- 2.1 **The Board reviews the ISS for compliance with the LGPS Regulations 2016 and guidance and provides any comments to the Pension Committee.**

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications in connection with this report.

4 CONTEXT

- 4.1 The investment Strategy statement sits alongside the Funding Strategy Statement. The Funding Strategy sets out how the liabilities will be funded through a combination of contributions and the returns from the investment assets. The ISS sets out the how the strategic asset allocation and how the assets are managed which must be consistent with the return assumptions in the FSS. The ISS explains how the investment strategy links to the FSS.

5 STATUTORY BACKGROUND

5.1 The LGPS regulations require each administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

5.2 The ISS required by Regulation 7 must include:

- A requirement to invest money in a wide variety of investments.
- An assessment of the suitability of particular investments and types of investments.
- The approach to risk, including the ways in which risks are to be measured and managed.
- The approach to pooling investments, including the use of collective investment vehicles and shared services.
- The policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
- The policy on the exercise of voting rights (including voting rights) attaching to investments.

5.3 The Regulations enable the Secretary of State to issue a Direction if an administering authority fails to act in accordance with the guidance.

5.4 The current guidance was issued in 2017. Since then LGPS funds have been required to include more information about pooling, ESG and climate strategies in their Annual Reports or via new disclosures such as the Taskforce on Climate-related Financial Disclosure report. Therefore the ISS primarily sets out policy and approach with detail on implementation and progress in other disclosures.

5.5 The current ISS attached as Appendix 1. The statutory guidance is Appendix 2, and the checklist is Appendix 3.

5.6 The Pension Board must consider whether the Administering Authority has complied with the LGPS Regulations 2016 and guidance when drafting the ISS.

6 THE INVESTMENT STRATEGY STATEMENT

6.1 The ISS sets out the investment strategy in detail, including asset allocation, climate targets, how financial and non-financial risks are managed as well as the decision-making process. It is used mainly by the Fund's advisors and managers as well as regulators to ensure that any instruction from the Fund is in line with the investment strategy. It is not a user-friendly document for scheme members given the level of technical detail that is required. We are developing a simpler, concise version for members and other stakeholders which will be available on our website.

6.2 The main changes to the investment strategy are as follows:

- (1) Revised climate targets to support the assets aligning with Net Zero by 2045 – including short to medium targets to reduce emissions and divest (by 2030) from companies that are not aligning with the Paris Agreement.
- (2) Initial 3% allocation for a Local Impact Portfolio – this will focus on the South West, initially on infrastructure and affordable housing opportunities.
- (3) Reduction in the Equity Protection Strategy hedge ratio from 100% to 50% - to provide significant downside protect but participate more in rising markets (to reduce the drag on equity returns over the long term).

- (4) Reinstatement of the Liability Driven Investing trigger framework – so that the Fund can increase the hedging of its liabilities by locking in higher bond yields.
- 6.3 Mercer have advised the Fund on its investment strategy throughout the investment review undertaken in 2023. The ISS is consistent with the return and risk assumptions used in the Funding Strategy Statement and 2022 valuation.
- 6.4 Two committee workshops were held to discuss the most financially material aspects of the investment strategy, in 1Q23 to consider asset allocations and in 4Q23 to consider net zero targets. In addition during 2023 the Investment Panel reviewed the Equity Protection strategy and LDI trigger framework in detail.
- 6.5 There was significant stakeholder engagement during the 2023 investment review focusing on our Net Zero targets and the level of risk within the strategy overall.

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. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

8 EQUALITIES

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

9 CLIMATE CHANGE

- 9.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

10 CONSULTATION

- 10.1 The report and its contents have been discussed with the Head of Pensions representing the Avon Pension Fund and the Director of Financial Systems, Assurance & Pensions representing the administering authority.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk 01225 395306
Background papers	CIPFA Pensions Panel (guidance on preparing ISS)
Please contact the report author if you need to access this report in an alternative format	