



PENSIONS COMMITTEE

28 March 2017

Subject Heading:

INVESTMENT STRATEGY STATEMENT

CLT Lead:

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Policy context:

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Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 requires an administrative authority to produce this document

Financial summary:

No direct financial implications

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for
People will be safe, in their homes and in the community
Residents will be proud to live in Havering

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SUMMARY

In line with the Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 requires an administering authority, after taking proper advice to formulate an investment strategy statement which must be in accordance with guidance issued by the Secretary of State.

The Statement sets out the London Borough of Havering's policies, in its capacity as Administering Authority, for the investments of the London Borough of Havering Pension Fund.

RECOMMENDATIONS

That the Committee:

1. Consider this report and any consultation responses and, subject to these, decide whether to adopt the proposed Investment Strategy Statement as set out in **Appendix A**.
2. Consider and agree to the administrative authority's position in respect of reporting compliance against the Myner's investment principles as set out in **Appendix D**.
3. Considers whether it is interested in becoming members of the **Local Authority Pension Fund Forum (LAPFF) and the Pensions and Lifetime Savings Association (PLSA)** and wishes to receive a further report in due course (paragraph 2.3(b) refers).

REPORT DETAIL

1. **Background**

- 1.1 LPGS (Management and Investment of Funds) Regulations 2016 Section 7 (1) states that an administering authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.
- 1.2 The Regulations that came into force on 1st November 2016 as set out in **Appendix B**.
- 1.3 The guidance as issued by the Department for Communities and Local Government (DCLG) in September 2016 is set out in **Appendix C**.
- 1.4 The authority must publish its Investment Strategy Statement (ISS) no later than the **1 April 2017**.
- 1.5 The new ISS replaces the Statement of Investment Principles (SIP) which was last updated in November 2015

- 1.6 This is the first statement produced under the new regulations and reflects the decisions and discussions held at the training/briefing sessions and the Special Pensions Committee meeting held on the 23 January 2017.
- 1.7 The authority's statement must include:
- (a) money invested in a wide variety of investments;
 - (b) the suitability of particular investments and types of investments;
 - (c) risk, including the ways in which risks are to be measured and managed;
 - (d) its approach to pooling investments, including the use of collective investment vehicles and shared services;
 - (e) how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisations of investments;
 - (f) a policy on the exercise of the rights (including voting rights) attaching to investments.
- 1.8 In line with LGPS (Management and Investment of Funds) Regulations 2016 Section 7 (6) the authority must consult such persons as it considers appropriate as to the proposed content of its investment strategy. The draft version of the ISS was distributed to all participating employers in the fund, the actuary, the Local Pension Board and Fund Managers on the **2 March 2017** for comments. Closing date for the consultation is the **21 March 2017**.
- 1.9 Any comments received from the consultees will be reported to members on the night of the meeting for consideration and following the committee's consideration of the consultee's comments the ISS will be updated where required and published.
- 1.10 The ISS has been formulated after taking advice from the Funds investment advisors Hymans Robertson LLP and in accordance with guidance issued by DCLG; the DRAFT ISS is attached at **Appendix A** and will be effective from **22 March 2017**.
- 1.11 The Final version will be published on the authority's website following this meeting.

2. Myner's Principles

- 2.1 Since the LGPS (Management and Investment of Funds) Regulations 2016 came into force on the 1 November 2016 it is no longer a statutory

requirement to publish its compliance alongside the ISS. Publication is voluntary and demonstrates best practice.

- 2.2 Attached as **Appendix D** is the statement of compliance which shows the fund's position in respect of compliance against the six Myner's principles. Please note some of the terminology used in the CIPFA best practice column has been superseded by the introduction of the new LGPS (Management and Investment of Funds) Regulations 2016.
- 2.3 The principles were reviewed with regard to the CIPFA guidance and can demonstrate that the fund is compliant with the majority of the six principles but needs to consider the following area:

a) Principle No.5. Responsible ownership - Administering authorities should recognise and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code.

Best practice suggests that the committee should engage with, and consider the implications of, the UK Stewardship Code on a 'comply or explain' basis.

Best Practice also suggests that authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.

New guidance issued in September 2016 by the DCLG states that administering authorities are encouraged to consider the best way to engage with companies and explain their policy on stewardship with reference to the Stewardship code. Administering authorities should become Signatories to the code and state how they implement the seven principles and guidance of the code, which apply on a 'comply or explain' basis.

The fund's current policy on Environmental, Social and Governance (ESG) factors have been included within the ISS but the committee did agree at a previous meeting to consider becoming signatories to the Stewardship Code and a report will be submitted for consideration at the next meeting.

Another consideration for the committee concerns the Key Performance Indicators (KPI's) that The Scheme Advisory Board is looking at developing to measure the 'health' of funds and to identify those funds where potential management problems lie. One of the measures includes whether a fund has adopted and reports against the FRC UK Stewardship Code.

- b) Action required for full compliance:** CIPFA guidance suggests funds seeking to comply with Principle 5 should comply with the UK Stewardship Code.

The committee to consider becoming signatories to the Stewardship Code will be considered at the next meeting.

With regard to seeking alliances with other pension funds, the Fund has joined the London CIV and expects them to undertake appropriate collaboration on its behalf where there is a common interest. However, **the committee may also wish to consider whether they would like to receive a further report explaining the benefits and issues of joining the Local Authority Pension Fund Forum (LAPFF) and the Pensions and Lifetime Savings Association (PLSA).** An outline of the organisations are shown below:

LAPFF - The LAPFF is an association of 72 other local authority pension funds and seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility on ESG issues. The annual subscription is £8,460 pa or £8,250 pa for those that sign up for 3 years. Some member benefit include access to quality research into ESG issues , Effective engagement with investee companies and networking opportunities for elected members and officers involved with the management of the LGPS.

PLSA - Other collaboration include becoming a member of the Pensions and Lifetime Savings Association (PLSA) formerly the National Association of Pension Funds. The PLSA is a not-for-profit membership association and exist to support their members by influencing stakeholders such as government and regulators to ensure there is a secure and viable workplace pension's environment for scheme members, sponsors and trustees. They currently represent over 70% of local Authority Pension Funds and provide expert, independent guidance and support to keep members up to date on the latest regulatory requirements, training and development. The 2017 rates are calculated at 20.73 pence per member. Based on March 2016 data this will be £3,756.07 (18,119 x 0.2073). Some member benefits include complimentary places at the Annual Conference and Exhibition, PolicyWatch which includes latest legislation and regulatory developments, access to ground-breaking research and discounted training.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly from this report. The estimated costs of producing the ISS including Investment Strategy Training is £8,000 exclusive VAT and is met from the Pension Fund.

The objective of the Fund is to ensure that assets are invested to secure the benefits of the Fund's members under the LGPS. The Fund's funding position will be reviewed at each triennial actuarial valuation and in line with regulations authorities must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of revisions to ensure that investment and funding objectives are being met and to minimise any costs to the general fund.

There is a risk that if the guidance and regulations are not followed then Regulation 8 of the LGPS (Management and Investment of Funds) Regulations 2016 enables the Secretary of State to issue a direction if he is satisfied that an administering authority is failing to act in accordance with the guidance. The Secretary of State can consider intervention but only where this is justified and where relevant parties have been consulted.

This follows on from one of the main aims of the new investment regulations transferring investment decisions and full consideration to administering authorities within a new prudential framework. Administering authorities will be responsible for setting their policy on asset allocation, risk and diversity, amongst other things.

In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.

Legal implications and risks:

It is a principle of administrative law that when the Authority has a duty to consult it must conscientiously take into consideration the representations of consultees before making its decision. Accordingly any comments provided under para 1.8 above should be considered conscientiously.

Otherwise there are no apparent legal implications and the applicable law is set out in the main body of the Report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

None arise from this report.

BACKGROUND PAPERS

Background Papers List

LGPS (Management and Investment of Funds) Regulations 2016

CIPFA publication investment decision making and disclosure Dec 09 and 2012

Investment Strategy Statement 2017