



PENSIONS COMMITTEE 16 March 2021

Subject Heading:

**INVESTMENT STRATEGY REVIEW
UPDATE**

SLT Lead:

Jane West

Report Author and contact details:

**Debbie Ford
Pension Fund Manager (Finance)
01708432569**

Policy context:

Debbie.ford@onesource.co.uk
Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 requires an administrative authority to periodically review this statement

Financial summary:

Implementation of the investment strategy will be met from restructuring existing mandates

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report includes an update on the implementation of the Investment Strategy, to follow up on specific development areas identified in the Fund's recent investment strategy and equity structure review.

The Fund's Investment Advisor (Hymans) were asked to produce a paper outlining the next steps and recommendations which are set out in Appendix A (exempt) to this report.

Appendix A of this report is exempt from publication by virtue of paragraph 3 and 5 of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended as it contains information relating to the financial or business affairs of the investment managers

already appointed to the Fund and comparisons of financial information to mandates available in the markets.

RECOMMENDATIONS

That the Committee is asked to:

1. Note Hymans report on the follow up on some of the development areas identified as part of Fund's recent investment strategy review attached as Appendix A (exempt).
2. To consider and agree recommendations from the options outlined in Section 2 of this Report.

REPORT DETAIL

1. Background

- a) The Pensions Committee ("the Committee") adopted an Investment Strategy Statement (ISS) at its 28 March 2017 meeting. The Fund has made good progress implementing this Strategy, focusing on individual asset classes at various stages of implementation.
- b) Subsequently the Committee agreed an updated ISS at its meeting on the 29 July 2020 (postponed from the cancelled March 2020 meeting due to the pandemic declaration made earlier that month).
- c) At the meeting held on the 1 October 2020 the Committee decided to adopt a number of recommendations and next steps made by Hymans as part of the on-going implementation of the investment strategy.
- d) The attached paper (Appendix A - EXEMPT) has been produced by the Hymans to follow up on some of the development areas identified from the work undertaken above.
- e) This paper is exempt as it contains information pertaining to the financial or business affairs of Fund's investment managers together with comparisons made with alternative mandates in the markets.
- f) The Hymans report includes the rationale of the proposed options for consideration and next steps. Recommendations are also outlined below:

2. Proposed recommendations:

- a) **Infrastructure - Recommendation 1:** We recommend increasing the SISF IV commitment by €10m (c. £9m) to maintain the target allocation. This will result in a total commitment of €30m (c. £26m). Due diligence on this fund has been completed so this will only require a further commitment letter to be provided.
- b) **Infrastructure - Recommendation 2:** In order to increase diversification within the Fund's infrastructure allocation, we recommend that a commitment of 2.5% of Fund assets is made to the LCIV Renewable Infrastructure Fund. This is subject to no adverse issues being indicated once the provision of formal advice has been given on the structure.
- c) **Private Debt - Recommendation 3:** We recommend that the Committee agree to make further allocations to Private Debt mandates at a level sufficient to maintain the overall allocation to the asset class at or around 7.5%. The precise amounts will be subject to agreement with Officers based on prevailing requirements of the Fund, particularly in light of the potential further drawdowns from Permira (Appendix A private debt section refers) .
- d) **Equity - Recommendation 4:** Subject to there being no adverse issues indicated once due diligence has been undertaken on the strategy, we are in principle supportive of the Committee converting the current investment in the Baillie Gifford Global Alpha fund to that of the Baillie Gifford Paris Aligned Global Alpha fund. We believe that this change would be consistent with the Committee's investment belief on managing climate risk and demonstrates progressive change, whilst creating potential to capture upside opportunities associated with the transition to a lower carbon economy.

IMPLICATIONS AND RISKS

Financial implications and risks:

The further commitment of c£9m to the Stafford SISF IV fund will primarily be funded from capital being returned from SISF II although any short term mismatches can be funded from the LCIV Baillie Gifford Diversified Growth Fund allocation.

There is a risk that the timings of returning capital from the Stafford II fund will overlap with the capital calls on the Stafford IV fund. The timings will largely depend on opportunities available to Stafford and the rate of progression within individual projects so it is difficult to predict exact timings in advance. Stafford do

Pensions Committee, 16 March 2021

expect broad alignment between the two funds (as the old fund is returning cash the new fund is calling capital) it is expected that there will be points where there is a cash surplus/deficit between the funds, although any short-term mismatches can be funded from LCIV Diversified Growth (Baillie Gifford).

Agreeing to commit to the LCIV Renewable Infrastructure Fund and therefore implementing the increase to infrastructure from 7.5% to 10%, as agreed on the 1 October 2020, will cost in the region of £21m. This will be funded from a reduction in the LCIV Diversified Growth Fund (Baillie Gifford).

The Paris Aligned version of the Baillie Gifford Global Alpha Fund has the same target levels of risk and return as the regular version that the Committee are currently invested in. However, the Paris Aligned variant is likely to be less exposed to companies which may be adversely affected by the transition to a lower carbon economy and, consequently, over the long-term, this change is expected to be beneficial to the Fund.

Advisory costs: The advisory costs of implementing the changes made to the structure will be incurred through the Investment Management consultancy services contracts with Hymans. Costs will be ongoing throughout implementation and the final costs will not be known until this has concluded and is dependent on the options taken forward by the Committee.

Costs arising from the implementation of the investment strategy will be met from the Pension Fund.

Legal implications and risks:

The changes proposed will not impact the content of the Investment Strategy Statement as they are within the parameters set out within it. Therefore there is no need to consult on the proposals. Otherwise there are no apparent legal implications of making the proposed amendments.

Human Resources implications and risks:

None arise directly from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

Pensions Committee, 16 March 2021

(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected
None arising directly.