



PENSIONS COMMITTEE

14 SEPTEMBER 2021

Subject Heading:

**INVESTMENT STRATEGY REVIEW
UPDATE**

SLT 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 periodically review this statement
Implementation of the investment strategy will be met from restructuring existing mandates

Financial summary:

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 investment strategy review.

The Fund's Investment Advisor (Hymans) were asked to produce a paper outlining the recommendation on the future direction of the Fund's market cap equity allocation, including consideration of a low carbon option developed by the London CIV. This is 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 investment strategy review attached as **Appendix A (exempt)**.
2. To consider and agree the recommendation as set out 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
- c) At meetings held on the 1 October 2021, 16 March 2021 and 20 July 2021 the Committee decided to adopt a number of recommendations and next steps suggested by Hymans as part of the on-going implementation of the investment strategy.
- d) The attached Hymans paper (Appendix A - EXEMPT) follows up on the future direction of the Fund's market cap equity allocation, including consideration of a low carbon option developed by the London CIV, as identified in previous reports at the above meetings.
- 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 outlined below:

2. Proposed recommendations:

- a) Committee consider and agrees an initial target allocation of 5% of Fund assets to the Passive Equity Progressive Paris Aligned fund (PEPPA) fund, reducing the target allocation to the All World Equity Fund from 10% to 5%.
- b) Hymans advice on investment in the PEPPA fund is subject to the completion of due diligence and provision of formal investment advice on the product particulars which are presently being finalised by LCIV.
- c) On discussion with LCIV, it is noted that the implementation will likely involve the appointment of a Transition Manager. The role of the Transition Manager is to shape the current assets into the new portfolio in a cost efficient manner. Officers are working with LCIV and other London Boroughs on this process. We recommend that Committee delegate decisions relating to the transition process, including selection of the Transition Manager to the Council's Chief Financial Officer.

IMPLICATIONS AND RISKS

Financial implications and risks:

The initial commitment of 5% to the LCIV PEPPA Fund equates to c£46m (based on 30 June 2021 fund values). The precise 5% amount will be determined based on fund values at the time of the account opening. The investment will be funded by draw down from the LGIM All World Equity mandate of £76.7m (based on 30 June 2021 fund values).

Advisory costs: The advisory costs of implementing the changes made to the investment strategy and its structure will be incurred through the Investment Management consultancy services contract with Hymans. Costs are ongoing throughout implementation and will be monitored closely by Officers - the final cost will not be known until this has concluded and is dependent on the direction of strategy options taken forward by the Committee.

LCIV have not yet shared fees for the product given they are still finalising the product particulars. It has been requested that fee details are to be provided by LCIV ahead of the Committee Meeting on 14 September 2021 and Hymans will comment further on that date.

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;
- (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.

BACKGROUND PAPERS

None