

Committee: Pension Fund Advisory Committee

Date: 28th September 2016

Agenda item: 5

Wards: All

Subject: UPDATE ON THE REVIEW OF THE PENSION FUND INVESTMENT STRATEGY

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact officer: Paul Dale

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Recommendations:

- a) Note the content of this report. Members are asked to read this report in conjunction with the separate reports titled "Update on the Pension Fund Triennial Actuarial Valuation" and "Replacement of the Statement of Investment Principles (SIP) with Investment Strategy Statement (ISS)" to this Committee.
- b) To note the introduction of the Local Government Pension Scheme (Management and Investment of Funds) Regulations) 2016 coming into force in 2016 to supersede the Local Government Pension Scheme (Management and Investment of Funds) Regulations) 2009 (as amended), tough new requirements on administering authorities and power of intervention for the Secretary of State.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to update the Committee on the investment strategy review work being carried out by JLT, the Pension Fund investment adviser, in consultation with officers and Barnett Waddingham, the Fund Actuary. The investment strategy review work would enable JLT to assist the Committee in developing a new strategy, creating appropriate mandates, updating the Statement of Investment Principles and selecting suitable fund managers through a competitive OJEU process.
- 1.2 JLT, Barnett Waddingham and Council officers have been working collaboratively preparing comprehensive information and cashflows for the initial modelling work to support the strategy review.
- 1.3 The investment strategy review will take account of the new Regulations and additional requirements imposed on administering authorities.

2. NEXT STEPS

- 2.1 The Fund Actuary will provide preliminary valuation results, associated cashflows and sensitivities/duration, including change in total liabilities, interest rates and inflation and sensitivity to the funding position to inform the investment review.
- 2.2 The Actuary's data would provide JLT clear insight into the valuation approach to ensure that JLT's approach is consistent with the Actuary's assumptions and the level of prudence implicit in the Actuary's discussions with Council officers.
- 2.3 Review of the investment strategy. It is important to confirm potential changes to the pension fund investment strategy with the appointed Investment Adviser to determine the appropriate asset allocation, benchmarks and performance targets to inform the Committee's decision on the nature of the mandates to be awarded. This would ensure that fund managers' approach and style are consistent with the investment objectives and the Committee's risk appetite and that there is complementarity of fund managers.
- 2.4 Officers anticipate JLT will model various options and asset allocation structures and their ideas will be presented to the Committee at or before the next meeting to be held on 1st December 2016.
- 2.5 Governance and monitoring matters will be addressed – training for Committee members, adoption of appropriate benchmarks, update of the Statement of Investment Principles and creation of new template for performance monitoring reports prior to preparing fund manager tender documents for the OJEU process.

3. ADVICE OF THE HEAD OF COMMERCIAL SERVICES

- 3.1 Discussion is on-going about the procurement approach that would ensure compliance with EU procurement regulations. However, in any event, a rigorous procurement exercise will be undertaken for this scale and profile of contract.
- 3.2 Internal procurement resources can manage the procurement process for the appointment of fund managers, but the investment adviser will be required to assist with the development of specifications and the evaluation of technical aspects of the bids received.

4. LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

- 4.1 An alternative to pursuing OJEU procurement would be to use the London CIV which is now actively taking investments.
- 4.2 An update on the CIV is the subject of a separate report to this meeting

5. CONSULTATION UNDERTAKEN OR PROPOSED

5.1 N/A

6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1 The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the Council.

6.2 There will be a one-off cost in procuring investment adviser to support the fund manager procurement process. This will be charged to the pension fund.

7. LEGAL AND STATUTORY IMPLICATIONS

7.1 Local Government Pension Scheme (Management and Investment of Funds) Regulations) 2016 coming into force in 2016 to supersede the Local Government Pension Scheme (Management and Investment of Funds) Regulations) 2009 (as amended)

7.2 The new Regulations impose strict new requirements on administering authorities and give the Secretary of State power of intervention.

8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1 N/A

9. CRIME AND DISORDER IMPLICATIONS

9.1 N/A

10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1 The use of the CIV would enable a quicker, simpler process, but any delays in their ability to take investments could impinge on the Council's ability to have the new allocations and fund managers in place by the end of the financial year.

11. APPENDICES

None

12. BACKGROUND PAPERS

1. The other reports to this meeting.

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