

Committee: Pension Fund Advisory Committee

Date: 28 September 2016

Agenda item: 9

Wards: All

Subject: REPLACEMENT OF THE STATEMENT OF INVESTMENT PRINCIPLES (SIP) WITH INVESTMENT STRATEGY STATEMENT (ISS)

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

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Recommendations:

- a) To authorise Officers to commence the production of an Investment Strategy Statement (ISS) in consultation with JLT, the Pension Fund adviser, to replace the Statement of Investment Principles (SIP) and bring draft ISS for consideration by the Committee at the next meeting to be held on 1st December 2016.
- b) To read this report in conjunction with the separate report titled "Update on the Review of the Pension Fund investment strategy" to this meeting.
- c) To read this report in conjunction with the separate report titled "Update on London CIV" to this meeting.
- d) To read this report in conjunction with the attached Guidance on producing and maintaining an Investment Strategy Statement (ISS) introduced to replace the Statement of Investment Principles (SIP) and note that the new Regulations impose stringent new requirements on administering authorities consistent with the government's pooling agenda.
- e) To note the introduction of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 coming into force in 2016 will supersede the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).
- f) To note the obligations on administering authorities under the new Regulations and the power of intervention/direction by the Secretary of State under the Regulations.
- g) To note the requirement for administering authorities to set out their approach to pooling, notify the Scheme Advisory Board (SAB) and Secretary of State of any changes which could delay/prevent authorities from pooling and submit annual

progress report on pooling to the SAB to include timeframe for review and criteria for transferring assets sitting outside the pool into the pool.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to request Committee approval for Officers to commence the production of an Investment Strategy Statement (ISS) to replace the current Statement of Investment Principles (SIP) in line with the new Guidance for producing and maintaining the ISS under the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and bring the draft ISS for consideration by the Committee at its next meeting to be held on 1st December 2016.
- 1.2 The SIP sets out the agreed policy which determines how the Pension Fund invests its assets. The current (2009) regulations require administering authorities to review and publish a SIP covering their policy on:
- Types of investment to be held
 - Balance between different types of investments
 - Attitude to risk and approach to its management
 - Expected return on investments
 - Extent to which social, environmental or ethical considerations are taken into account.
- 1.3 Under the 2009 regulations, administering authorities must also explain in the SIP the extent to which they comply with six principles of good practice:
- Effective decision-making
 - Clear objectives
 - Risk and liabilities
 - Performance assessment
 - Responsible ownership; and
 - Transparency and reporting
- 1.4 The current SIP was approved by PFAC on 15th September 2014. Since then, many changes have taken place as part of the government's reform of the LGPS culminating in a raft of new regulations. In particular, pooling has ushered in a new era for the LGPS and the SIP does not fit in with the pooling agenda.

2. REASONS FOR REPLACING THE SIP

- 2.1 The government has this week published its “Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS)”.
- 2.2 New investment regulations to be introduced this year will require administering authorities to publish an Investment Strategy Statement (ISS) by 1st April 2017 in accordance with the Guidance attached to this report.
- 2.3 Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 coming into force later this year will require administering authorities to comply with the attached Guidance.
- 2.4 For clarity, the requirement above in paragraph 2.3 is in addition to the duty of administering authorities to prepare, maintain and review their Funding Strategy Statement (FSS) under Regulation 58 of the Local Government Pension Scheme Regulations 2013.

3 THE NEW INVESTMENT STRATEGY STATEMENT

- 3.1 Under Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, administering authorities are required to formulate an investment strategy which must comply with Guidance issued by the Secretary of State. The Investment Strategy Statement must include:
 - a) A requirement to invest money in a wide variety of investments;
 - b) The authority’s assessment of the suitability of particular investments and types of investments;
 - c) The authority’s approach to risk, including the ways in which risks are to be measured and managed;
 - d) The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;
 - e) The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - f) The authority’s policy on the exercise of rights (including voting rights) attaching to investments.
- 3.2 The new ISS must set out the maximum proportion (%) of the Pension Fund’s total assets to be invested in particular investments or asset classes. This supersedes Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

3.3 The ISS must be published by 1st April 2017 and reviewed and revised as necessary and at least once every three years. For the avoidance of doubt, key elements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 will remain in force until the 2016 Regulations come into effect this year.

3.4 The Secretary of State has the power of direction under Regulation 8 of the 2016 Regulations to compel an administering authority to change its investment strategy within specific deadline, to invest assets as directed by the Secretary of State, and to relieve an administering authority of its investment functions in line with Section 13(4) of the Public Service Pensions Act 2013 and giving regard to reports from the Scheme Advisory Board or from the local Pension Board.

4. CONSULTATION UNDERTAKEN OR PROPOSED

4.1 N/A

5. FINANCIAL, RESOURCES AND PROPERTY IMPLICATIONS

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

5.2 There will be a one off-cost in procuring investment adviser to support the production of the new Investment Strategy Statement, estimated to be under £20k. This will be charged to the Pension Fund.

6. LEGAL AND STATUTORY IMPLICATIONS

6.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 will come into force in 2016 to supersede the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). The new Regulations will require administering authorities to produce and publish an Investment Strategy Statement (ISS) by 1st April 2017 to replace the current Statement of Investment Principles (SIP) in line with Guidance published by the Government in September 2016.

6.2 L.B Merton is reviewing its Pension Fund investment strategy. Contracts resulting from implementation of the new strategy will have legal implications for the Fund. Whichever procurement route is followed and whether or not any of the procurements fall within the EU regulations, there is still the need to demonstrate fairness and transparency. There will also be a need for Legal input in drafting or approving contract terms and conditions. If use of a framework is pursued, then there is likely to be an Access Agreement required, which will also necessitate Legal input.

7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

7.1 N/A

8. CRIME AND DISORDER IMPLICATIONS

8.1 N/A

9. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

9.1 It would be prudent to review the products and terms available from the CIV before committing to formal independent tenders. The use of London CIV would enable a quicker, simpler process, but any delays in the CIV's ability to take investments could impinge on the Council's ability to implement new investment strategy by the end of 2016/17.

10. APPENDICES

1. Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) published by the government in September 2016.

11. BACKGROUND PAPERS

11.1 Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) published by the government in September 2016.

11.2 L.B Merton's Statement of Investment Principles approved by PFAC in September 2014.

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