

Pensions Committee

21 March 2018

Report title	Investment Strategy Statements Review	
Originating service	Pension Services	
Accountable employee(s)	Jill Davys Tel Email	Assistant Director, Investments & Finance 01902 550555 Jill.davys@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.brothwood@wolverhampton.gov.uk

Recommendations for action or decision:

The Committee is recommended to approve the revised Investment Strategy Statements (ISSs) drafted for the West Midlands Pension Fund (WMPF) and West Midlands Integrated Transport Authority Pension Fund (WMITAPF), noting that:

1. The ISSs have been prepared in line with the statutory requirements under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
2. The WMPF ISS has been updated to reflect changes to wider Fund policies referenced within the Statement
3. The WMITAPF has been updated to reflect the restructuring of the strategic asset allocation benchmarks in line with a risk reduction strategy for the main employer in the Fund
4. A copy will be published on the Fund's website

1.0 Purpose

- 1.1 To present for Committee to review and approve the Investment Strategy Statements updated for the WMPF and WMITAPF.

2.0 Background

- 2.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, in force from 1 November 2016, require Administering Authorities to publish their first Investment Strategy Statement (ISS) from 1 April 2017 and kept under review.
- 2.2 To comply with the regulations and guidance, the ISS 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.
- 2.3 The current ISS were last reviewed and updated in March 2017 to reflect the new regulatory requirements and the changes made to the WMPF Strategic Investment Allocation Benchmark (SIAB) agreed alongside the 2017 strategy review.

3.0 Changes incorporated in the revised Investment Strategy Statements

- 3.1 Minimal changes have been made to the WMPF ISS, except to update the revised objectives for the Fund, following review by the officers of the Fund and included in detail in the Service Plan update agenda item for this Committee. The updated objectives for the Fund are:
- a) Partnering for Success
 - b) To be a responsible asset owner, employer and community partner
 - c) Investing to increase capacity
 - d) Drive efficiency and cost savings
 - e) Engage to improve outcomes for customers

There have been no changes to the WMPF investment strategy since the 2017 review.

- 3.2 As noted in the Investment and Strategy Report for the Committee on 13th December, discussions at that time were underway with largest employer in the WMITA Fund on some realignment of investment strategy. As observed those discussions were likely to result in a

decreased allocation to equities being largely replaced by an allocation to multi-asset credit and move of gilt/bond assets into longer duration 'liability driven investments' to reduce further funding volatility.

- 3.3 Agreement has been reached following discussions with the company and their advisers and the updated WMITAPF Investment Strategy Statement reflects the amended strategy which pending approval by this Committee under a separate agenda item, will then be implemented.
- 3.4 The key changes for the WMITAPF are a reduction in equity exposure, removal of index linked and corporate bonds and the introduction of a multi-asset credit strategy and Liability Driven Investments.
- 3.5 Whilst the asset allocation decision for the Fund is for this Committee, understanding the impact and risk tolerance of the underlying employer, it is helpful to have agreement on the way forwards for delivering investment strategy as this can significantly influence employer contribution volatility.
- 3.6 The SIAB and both Fund ISSs are reviewed annually to ensure they remain up to date and reflect any changes to implementation of investment strategy or objectives.
- 3.7 The updated ISS for WMPF is contained in Appendix A and WMITAPF in Appendix B. Once approved, they will be published on the Fund website and will be within a suite of policies reviewed by the Local Pensions Board at their meeting in July 2018.

4.0 Financial implications

- 4.1 This report contains no direct financial implications.

5.0 Legal Implications

- 5.1 Regulation 8 of the Local Government Pension Scheme (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 issued by DCLG.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

- a) To require an administering authority to make changes to its investment strategy in a given timescale;
- b) To require an administering authority to invest assets as specified in the Direction;
- c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and
- d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

6.0 Equalities implications

6.1 This report contains no equal opportunities implications

7.0 Environmental implications

7.1 There are no direct environmental implications

8.0 Human resources implications

8.1 This report contains no direct human resources implications

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landland implications.

10.0 Schedule of background papers

10.1 DCLG guidance on preparing and maintaining an investment strategy statement (September 2016)

<https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement>

11.0 Appendices

11.1 Appendix A – Investment Strategy Statement for the WMPF

11.2 Appendix B – Investment Strategy Statement for WMITAPF