

25 March 2020

<b>Report title</b>	Investment Strategy Statement 2020	
<b>Originating service</b>	Pension Services	
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## Recommendation(s) for action:

The Committee is recommended to approve the revised Investment Strategy Statement (ISS) drafted for the West Midlands Pension Fund (WMPF) noting that:

1. The ISS has 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 as well as changes in strategy following the Fund's Strategic Asset Allocation review.
3. Following the merger of the West Midlands Integrated Transport Authority Pension Fund (WMITA PF), there is no longer a separate Investment Strategy Statement for this Fund, instead there are separate Admission Body Pension Fund strategies for the two former employers in the WMITA PF are incorporated within the WMPF ISS.
4. A copy of the Statement will be published on the Fund's website.

## **1.0 Purpose**

- 1.1 To present for Committee review and approval the Investment Strategy Statement updated to reflect the Fund's review of investment strategy, incorporating updated investment beliefs, governance and risk management arrangements and the Strategic Investment Allocation Benchmark (SIAB). The Responsible Investment Framework referred to within has also been updated and is presented for review in a separate paper.

## **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 keep 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 ISS was last reviewed and updated in March 2019 and reflected mainly policy changes in the case of the WMPF ISS and the strategic asset allocation changes agreed for the West Midlands Integrated Transport Authority Pension Fund (WMITA PF).

## **3.0 Changes incorporated in the revised Investment Strategy Statement**

- 3.1 Following the merger of the WMITA PF with the WMPF main fund, the Fund is no longer required to publish a separate ISS for the WMITAPF. However, in recognition that there are now two distinct and separate Admission Body Separate Funds (ABSF) relating to the former employers who were admitted bodies within the WMITA PF, there are now separate schedules which relate to these employers as appendices to the main ISS. This is in line with the approach outlined to MHCLG during the application for merger.
- 3.2 Following the 2019 triennial actuarial valuation and review of the funding strategy, the Fund has been working with its external investment and risk advisers to review the investment strategy and to update the strategic asset allocation in light of the updated funding position and changing future contribution outlook. The investment beliefs outlined within the ISS and risk tolerance of the Fund have been considered and are reflected within the recommendations stemming from the review. The ISS have now been updated to reflect

changes in strategy for both the main fund and the ABSFs. The Committee have received through training and a separate agenda item, further detail on the review, risk considerations and rationale for changes to the Strategic Investment Allocation Benchmark (SIAB).

- 3.3 When considering the Investment Strategy, the Fund looks to set a medium-term strategy to cover the next one to two actuarial valuation cycles (3-6 years) reflecting on the longer-term funding requirements and the development of the future benefit cashflow and evolving liability profile of the Fund. It is recognised that conditions may well change over that time period and as a consequence the Fund will keep its ISS under review with the Committee reviewing the ISS on an annual basis.
- 3.4 Key strategic asset allocation changes contained within the ISS for the main fund are reducing the target allocation to growth assets and increasing the strategic allocation to income producing assets and stabilising (lower risk) assets, reflecting the improved funding position from the actuarial valuation and the desire to reduce overall levels of investment risk whilst maintaining a return target focused on delivering the longer term investment returns to meet our funding strategy.
- 3.5 The appendices to the ISS also contain the updated ABSFs strategies, these reflect the more mature nature of these specific ABSFs and hence the requirement for different investment strategies. The ABSF WMTL has a maturing liability profile and as such, changes to this strategy are aimed at reducing investment risk. No changes have been made to the PBL ABSF, noting this strategy was recently updated in December 2018 to reflect a reduction in investment risk. Both associated employers have been consulted on the strategies reflected within the ISS, with further changes to the PBL strategy deferred following feedback from the employer.
- 3.6 The Fund has undertaken a review of its investment beliefs, looking to refine and build on previous iterations of Fund beliefs and in setting the context for wider strategy work, these updated investment beliefs have been included at a high level within the main body of the ISS and the detailed beliefs as an appendix to the ISS.
- 3.7 The Fund's Investment Advisory Panel have reviewed the updated strategy and investment beliefs and have been consulted on the ISS. In recommending the updated ISS, the Fund has undertaken a consultation process with key stakeholders which have included group consultation meetings on the valuation and high-level investment strategy. Employers have been issued with a copy of the draft ISS and the draft has been published on the Fund's website pending approval by Pensions Committee. The Committee will be updated of any further feedback on the consultation at the Committee meeting.
- 3.8 The SIAB and the wider ISS will be reviewed annually to ensure it remains up to date and reflect any changes, for example to reflect developing statutory guidance on the approaches Funds with the LGPS take with regard to investment strategy, implementation and governance, or interim review. The next full investment strategy review will be carried out in conjunction with the 2022 actuarial valuation, for approval by 31 March 2023.
- 3.9 The updated ISS is contained in Appendix A and once approved, it will be published on the Fund website. This replaces previous ISSs for both the WMPF and the WMITAPF which were last approved in March 2019.

#### **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 landlord 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 2020.