

Report title	Investment Strategy Statement	
Originating service	Pension Services	
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Recommendations for decision:

The Pensions Committee is recommended to approve the revised Investment Strategy Statement (ISS) 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 outcomes of the Fund's triennial funding and investment strategy reviews, incorporating changes to the Fund's Strategic Investment Allocation Benchmark.

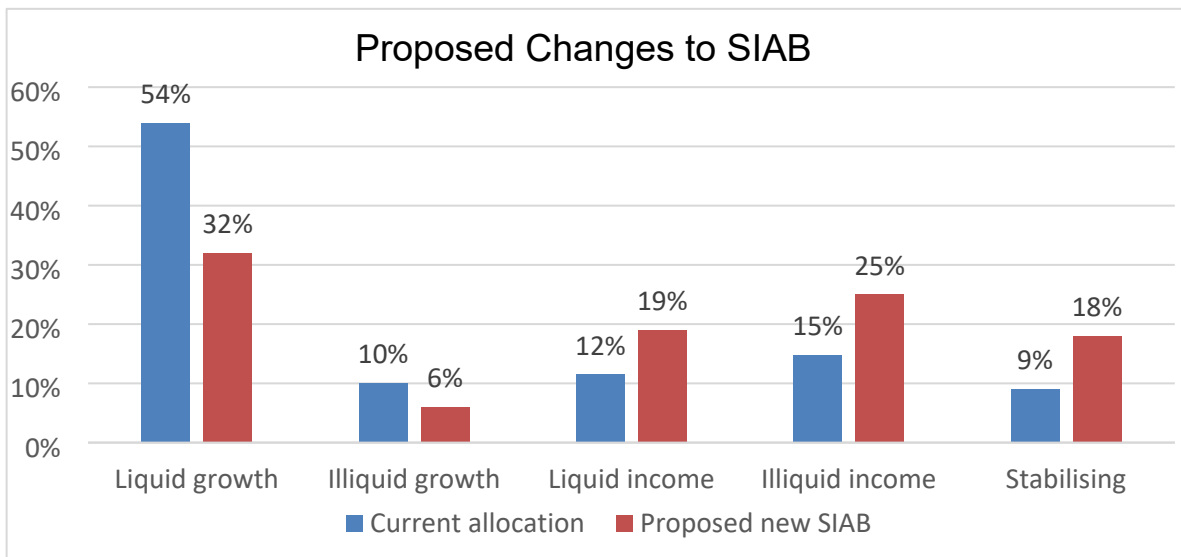
1.0 Purpose

- 1.1 To present for Committee review and approval the ISS 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).

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 requirement to invest money in a wide variety of investments;
 - The authority's assessment of the suitability of particular investments and types of investments;
 - The authority's approach to risk, including the ways in which risks are to be measured and managed;
 - The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - 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
 - The authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 2.3 The ISS was last reviewed in-depth in conjunction with the 2019/20 triennial review and has been reviewed and updated in 2021 and 2022 to reflect annual review and developing implementation and supporting policy.
- 2.4 The 2023 statement reflects an in-depth review of the investment strategy undertaken by the Fund's investment and risk consultants, in conjunction with the Fund's officers. The updated ISS and SIAB targets have been reviewed by the Fund's Investment Advisory Panel and shared with key stakeholders (employers and governing bodies). Revisions reflect review of the Fund's long-term investment objectives, in context of the outcomes of the triennial Funding Strategy and Employer Covenant review, and as part of the Fund's Integrated Risk Management Framework.
- ## **3.0 Changes Incorporated in the Revised Investment Strategy Statement**
- 3.1 Following the 2022 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 improved 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.

- 3.2 The ISS has been updated to reflect changes in strategy for both the Main Fund and the Admitted Body Separate Funds (ABSFs). The Committee have received through recent training, further detail of the review, risk considerations and rationale for changes to the Strategic Investment Allocation Benchmark (SIAB).
- 3.3 The investment strategy has been assessed and considered in context of the economic outlook, Fund commitment to Climate Change and ambition to further integrate wider environmental, social and governance factors into investment decision making. The review reflects a forward-looking approach to managing both risk and opportunity through the investment strategy.
- 3.4 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. 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.
- 3.5 Key strategic asset allocation changes contained within the ISS for the Main fund are to further reduce the target allocation to growth assets and continuing to increase 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 the Fund’s funding strategy. The risk reduction envisaged through the revised allocation benchmark will aid in increasing funding and contribution stability over time.



- 3.6 Key changes for the ABSFs reflect the closed and maturing nature of the liabilities the assets are held to support. Improving funding levels has enabled further investment risk reduction and increased collateral backed liability matching assets.
- 3.7 Proposals have been developed in consideration of the liquidity requirements of the Fund, resilience to changing levels of inflation and the potential for market shocks.

- 3.8 In recommending the updated ISS, the Fund has undertaken a consultation process with key stakeholders which have included group consultation and individual meetings on the valuation outcomes and high-level investment strategy review.
- 3.9 The SIAB and the wider ISS will continue to be reviewed annually, as implementation plans develop, to ensure it remains “on track” in context of developing economic and market conditions, and emerging guidance applicable to LGPS investment strategy, governance and implementation. The next full investment strategy review will be carried out in conjunction with the 2025 actuarial valuation, for approval by 31 March 2026.
- 3.10 The Fund has completed a fundamental review of the investment strategy with the outcome of the review reflected in the updated ISS set out in Appendix A. Following approval of the updated ISS the new target allocation will be reflected and the Fund will focus on a transition plan for implementing the SIAB changes.

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 the Department of Levelling Up, Housing and Communities (DLUHC).

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:

- To require an administering authority to make changes to its investment strategy in a given timescale;
- To require an administering authority to invest assets as specified in the Direction;
- To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and
- 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 Other Implications

- 7.1 This report contains no other implications.

8.0 Schedule of Background Papers

- 8.1 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>

9.0 Schedules of Appendices

- 9.1 Appendix A – Investment Strategy Statement 2023