

WILTSHIRE COUNCIL

WILTSHIRE LOCAL PENSION BOARD
6 April 2017

Investment Strategy Statement

Purpose of the Report

1. This report presents the Investment Strategy Statement (ISS) approved by the Pension Fund Committee for review. The ISS is a new document required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Background

2. In November 2015 the Department for Communities and Local Government (DCLG) issued a consultation proposing revoking and replacing the LGPS (Management and Investment of Funds) Regulations 2009. Within this consultation, proposals were made removing the requirement to prepare a Statement of Investment Principles (SIP) and replacing with an ISS.
3. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016 with the requirement for administering authorities to publish the new Investment Strategy Statement by 1 April 2017.
4. This draft ISS was considered by the Investment Sub-Committee (ISC) at its meeting on 1 March 2017 and then issued for a two week consultation period with the Fund's stakeholders, including the Local Pension Board.

Main Consideration for Board

5. Attached is the ISS approved by the Pension Fund Committee at its meeting on 23 March 2017. This document has been written by Mercers in conjunction with officers.
6. This is the first document in this format and replaces the SIP previously approved annually.
7. The new investment regulations specifically states that the following areas must be included within the ISS:-
 - A requirement to invest money in a wide variety of investments;
 - The authority's assessment of the suitability of particular investments and types of investment;
 - The authority's approach to risk, including the ways risk are to 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.

8. The ISS must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.
9. One of the main aims of the new investment regulations is to transfer decisions and their considerations more fully to the Fund within a new prudential framework. The Fund is therefore now responsible for setting its policies on areas such as asset allocation, risk and diversification.
10. In relaxing the regulatory framework for scheme investments, the Fund is expected to make investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure the less prescriptive approach is used appropriately in the best long term interests of the scheme beneficiaries and taxpayers.
11. In line with the regulations the Fund had to consult such persons as it considers appropriate as to the proposed contents of its investment strategy. The statement must then be published by 1 April 2017 and then kept under review and revised from time to time, in particularly when there is a material change in risk, and at least every three years.
12. Following the ISC meeting, the draft ISS was circulated to all Committee and Local Pension Board Members for a consultation period of 2 weeks. A link to the document was also be put on the Fund's website so scheme members could view the statement and a copy sent to all of the Fund's employer organisations during the consultation period.
13. The summary feedback received during the consultation period is attached for information. The Pension Committee then approved a revised version that accommodated changes in respect of the feedback where it was felt appropriate.
14. An additional Annex has been added to this report which shows the extent to which this ISS complies with CLG investment regulations.

Financial Considerations

15. The Financial considerations are considered within the attached draft ISS.

Risk Assessment

16. This paper proposes a new ISS as required by The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The ISS attempts to mitigate the risks outlined in PEN007 *Significant rises in employers contributions due to poor investment returns* in the Fund's Risk Register.

Safeguarding Considerations/Public Health Implications/Equalities Impact

17. There are no known implications at this time.

Reasons for Proposals

18. To comply with the requirements of the new investment regulations.

Environmental Impact of the Proposals

19. There are no known implications at this time.

Proposal

20. The Board is asked to review the 2017 Investment Strategy Statement and the associated process.

MICHAEL HUDSON
Treasurer to the Wiltshire Pension Fund

Report Author: David Anthony, Head of Pensions

Unpublished documents relied upon in the production of this report: None

Investment Strategy Statement Consultation Summary Feedback

Below are a summary of the feedback received as part of the consultation:

From Local Pension Board Members:

- 1) I consider that the draft ISS broadly complies with Reg 7 of the LGPS regulations and DCLG statutory guidance on the preparation and maintenance of ISS except I recommend that
 - a) in respect of Regulation 7 2(a) investment in wide variety of investments and Reg 7 2(b) suitability and type of investment - some key WP policy statements need some small clarifying/factual edits
 - b) you attach as an Annex a WPF regulatory compliance tick sheet is created in relation to Reg 7 and the DCLG LGPS statutory requirements embolden in their guidance, and the WPF considers developing policies on controversial financially material ESG investment issues, with these tools being for the use of the Pension Committee, Local Pension Board, and fund members,
- 2) I consider that if the ISS is published on the WPF website it will meet LGPS and TPR Code 14 disclosure and communications requirements respectively.
- 3) I consider that it should help improve the efficacy of the WPF.
- 4) I welcome and support the proposal the ISS should be reviewed and updated before April 2018 as required to take account of the commencement of asset pooling in 2018.

and;

- 1) How is full transparency on fees sought? Can we get the total cost of investment? Can we insist that the funds we invest in provide this?
- 2) How much and on what basis do we pay independent investment advisors as well as the external investment managers – should this be on outperforming the relevant indices?
- 3) I appreciate ad-valorem is ‘accepted practice’ but is it ‘best practice’? Would it be helpful to indicate that an increasing proportion will be through performance driven fees? Has an options appraisal been conducted on this point? If not, what criteria are to be used to determine if it is ‘believed to be in the overall financial interests of the Fund’? Can we include a worked example?
- 4) Should we include the performance report template/ measures/ benchmarks which go to the investment sub-committee within the ISS?
- 5) How is employee input sought in the Brunel governance?

From Pension Fund Committee:

I am more concerned about the section which says “Following the completion of the transition plan outlined above, it is currently envisaged that all of the Wiltshire Pension Fund’s assets will be invested through BPP Ltd.” The wording is slightly vague – what

does “currently envisaged” mean in this context and is it wise to be vague? The fiduciary duty dictates that all decisions should be taken in the best financial interests of the fund in meeting its responsibilities. The business-like relationship should be constructed to ensure that the committee will design and decide its investment strategy and that BPP will deliver investment management to fulfil the strategic and performance objectives of the committee. The committee will need to ensure that it holds BPP to account for investment performance, but the ultimate decisions on strategy will remain with the committee.

From Statement from Scheme member made to Investment of Sub-Committee:

We the undersigned congratulate the Wiltshire Pension Fund on its draft Investment Strategy Statement, which includes plans to review the risks caused by climate change and the associated issue of stranded assets. The plans to undertake a carbon footprint of the Fund’s equity portfolio and a temperature rise scenario analysis are also welcomed.

We would like to make the following suggestions to the fund

1. We suggest that the fund extends the carbon footprint to the entire portfolio including passive investments.
2. Following completion of the assessment, the fund should establish an appropriate process for the management of climate change risk such as:
 - a. For active equity mandates the pension scheme requests the use of information about company emissions intensity and reduction plans through robust engagement
 - b. For passive equity mandates the pension scheme has considered multi-factor products that offer built in climate protection
 - c. We ask that the fund involve members in this process, and would be glad to offer our support

ANNEX 2

The Investment Strategy Statement required by Regulation 7 must include:-

Requirements	Confirmation of Compliance
a) A requirement to invest money in a wide variety of investments	YES – see section 2
b) The authority's assessment of the suitability of particular investments and types of investments	YES – see section 3
c) The authority's approach to risk, including the ways in which risks are to be measured and managed	YES – see section 4
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services	YES – see section 5
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	YES – see section 6
f) The authority's policy on the exercise of rights	YES – see section 7

More Specifically	Confirmation of Compliance
7 (2) (a) <ul style="list-style-type: none"> • Must take proper advice • Must set out clearly the balance between different types of investments • Must identify the risks associated with their overall investment strategy • Must periodically review their policy to mitigate against any such risks 	YES – Mercers advises YES - As out lined in the investment strategy YES – See chart & tables in investment risk section YES – high level strategy review annually
7 (2) (b) <ul style="list-style-type: none"> • Must take proper advice • Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target • Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy 	YES – Mercers advises YES – See section 3 Yes – annually reviewed
7 (2) (c)	

<ul style="list-style-type: none"> • Must take proper advice • Should clearly state their appetite for risk • Should be aware of the risks that may impact on their overall funding and investment strategies • Should take measures to counter those risks • Should periodically review the assumptions on which their investment strategy is based • Should formulate contingency plans to limit the impact of risks that might materialise 	<p>YES – Mercers advises YES - implicit in the risk section</p> <p>YES – outlined in tables & charts section 4</p> <p>YES – continually monitored & exploring risk mitigation tools YES – annually</p> <p>YES – as outlined in section 4</p>
<p>7 (2) (d)</p> <ul style="list-style-type: none"> • Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance • Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria • Set out the proportion of assets that will be invested through pooling • Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account • Set out the services that will be shared or jointly procured • Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money • Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money • Submit an annual report on the progress of asset transfers to the Scheme Advisory Board 	<p>YES – see section 5, proposal currently acceptable to Government</p> <p>Not currently applicable</p> <p>Still to be finalised but outlined intention of which assets will be in / outside the pool</p> <p>YES – governance arrangements detailed in section 5</p> <p>Services still in development as part of the Brunel Company set up</p> <p>Still to be finalised but outlined which assets may be held outside due to mandates not currently being offered within the pooling arrangements</p> <p>Not yet applicable</p> <p>Not yet applicable</p>
<p>7 (2) (e)</p> <ul style="list-style-type: none"> • Must take proper advice • Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors • Must explain the extent to which non-financial factors will be taken 	<p>YES – Mercers advises YES – the Fund involves all its main stakeholders in the development of the ISS and will make them aware of and engage with these stakeholder groups where applicable as outlined in Non-Financial considerations in section 6.</p> <p>See above</p>

<p>into account in the selection, retention and realisation of investments</p> <ul style="list-style-type: none"> • Should not pursue policies that are contrary to UK foreign policy or UK defence policy • Should explain their approach to social investments 	<p>YES – as outlined in Sanctions from section 6</p> <p>YES – as outlined in Social Investment from section 6</p>
<p>7 (2) (f)</p> <ul style="list-style-type: none"> • Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments • Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code • Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f) • May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority • Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations 	<p>The Fund has adopted a policy in line with its third party voting provider PIRC which was approved by Committee</p> <p>YES – outlined in section 7</p> <p>YES – as outlined in section 7</p> <p>YES – as outlined in section 7</p> <p>YES – will be included in future annual report. Currently reported to Members / Board through their specific area on the website.</p>