

Pensions Committee

17 March 2021

Investment Strategy Statement

Report by Director of Finance and Support Services

Summary

Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS').

The Fund's Strategy has been revised in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance and updates the Fund's position in relation to its strategic asset allocation, investment beliefs and the Committee's view on Responsible Investment.

The Statement was approved by the Committee when it met in October 2020 for consultation with stakeholders. The consultation with stakeholders completed in late January.

Responses received covered a number of matters, but the majority of comments focused on the divestment from fossil fuels which respondents considered presented a financial risk to the Fund.

It is not proposed that any substantive changes are made to the Strategy Statement as a result, but opportunity has been taken to make some minor revisions for consistency and clarity.

Recommendations

- (1) To approve the revised Investment Strategy Statement, reflecting amendments following the consultation with stakeholders.
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Proposal

1 Background and context

- 1.1 The [Local Government Pension Scheme \(LGPS\) Regulations](#) require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS') and that the authority invests, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

1.2 The Pension Fund’s [current Investment Strategy Statement](#) was published following approval by the Committee in July 2018.

2 Update

2.1 The Investment Strategy Statement was updated during the first part of the year following the completion of the Fund’s Asset Liability Modelling work and the considerations made by the Committee and its Task and Finish Group in relation to Responsible Investment.

2.2 At its meeting in October 2020 the Committee approved the Statement for consultation with stakeholders.

2.3 The Statement was shared with the Pension Advisory Board on 13 November 2020. The Board noted that the Statement was compliant with the necessary Regulations.

2.4 A consultation was launched on in December. All members where the Pension Fund holds an email addresses were notified, employers were contacted and asked to cascade the information to their active members in employers and the Fund’s investment managers were consulted. The consultation period ended in late January 2021.

2.5 The Fund received 77 responses from members (52), employers (3) and other interested parties (22).

2.6 Most respondents (57) were not satisfied with the strategy. The reasons for the feedback have been categorised below, along with the proposed response:

Feedback	Consideration
Active management does not represent value for money	<p>The Pension Fund has had a long-term belief in active management.</p> <p>As part of this the Committee are clear that they are seeking “high conviction active management” and has set performance targets to reflect this.</p> <p>Over the last ten years the Fund has returned 10.48% compared to a passive index return of 9.14%, an additional 1.34% after fees.</p>
Asset Allocation is incorrect in current climate, increase equities and provide more detail about implementation.	<p><i>The West Sussex Pension Committee believes that investing in a manner consistent with long-term sustainable outcomes is a core pillar of its fiduciary duty to its members.</i></p> <p>The Committee does not take short term tactical asset allocation positions relative to the strategic asset allocation. Its strategic asset allocation is based on advice from the investment advisers and actuary based on the Fund’s own liability and cashflow profiles.</p> <p>The Committee have taken the decision to reduce its equity exposure because of its</p>

Feedback	Consideration
	strong funding position. The strategy has now been developed to protect this – and reduce risk of deficits emerging.
The Fund should make ethical considerations which make positive impact and exclude specific companies (arms, tobacco, countries).	The Fund’s investment managers are signatories to national and international ethical frameworks including the UK Stewardship Code, Japan’s Stewardship Code, Investor Stewardship Group (ISG) Principles, European Fund and Asset Management Association (EFAMA) Stewardship Code and International Corporate Governance Network (ICGN) Principles. This supports the consideration of a range of issues when making decisions about investment, divestment and retention of companies.
The Fund should divest from fossil fuels	<p>The Committee has agreed that it will not pursue a direct policy of divestment from fossil fuels and supports a stance of engagement on this topic.</p> <p>The Strategy reflects the Committee’s support for investment opportunities commensurate with a low-carbon future and it is now actively working to implement this through the inclusion of additional objectives within its mandates, which recognise international treaties (such as the Paris Agreement) and committing to sectors / companies which are similarly aligned.</p> <p>This follows extensive consideration of the issue with industry experts</p>
The Fund should invest more in green energy	<p>The Committee welcome investment opportunities which deliver a positive and measurable societal and/or environmental outcome.</p> <p>As an example, the Fund has recently made a commitment to an infrastructure fund which has over USD 4bn invested in renewables businesses which generate > 6.5 GW of renewable energy capacity.</p>

- 2.7 Feedback was also provided about how to make the document clearer and more accessible, and these drafting changes have been incorporated. The revised Statement has been appended (Appendix 1) with changes marked against the version agreed by the Committee in October.
- 2.8 Following the Committee’s consideration of the Statement, officers will make steps to ensure that each aspect is implemented as appropriate.

3 Other options considered (and reasons for not proposing)

N/A

4 Consultation, engagement and advice

Hymans have provided advice on the management of assets and liabilities for the Fund via the investment strategy.

Aon have supported the Committee in considering responsible investment.

5 Risk implications and mitigations

Risk	Mitigating Action (in place or planned)
Insufficient funds to meet liabilities resulting in increased contributions required from employers or changing to a higher risk investment strategy	The Committee have set a strategic asset allocation which is based on detailed advice from the Fund Actuary, Investment Consultant and Investment Adviser through the completion of Asset Liability Modelling work.
Political and/or employer pressure results in change to investment strategy resulting in the Fund being required to restrict Fund Manager investments and/or the Fund being challenged on fiduciary duty.	The Committee have taken appropriate advice in determining its approach to responsible investment and its investment strategy and on its responsibilities as a Pensions Committee.

6 Policy alignment and compliance

The Pensions Committee have an overall objective to minimise the long-term cash contributions which employers need to pay to the Fund. This will be achieved through recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return. The Investment Strategy Statement is designed to provide transparency in relation to how investments are managed.

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Appendices

Appendix 1 – Investment Strategy Statement

Background papers

None