

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday 21 March 2017
Report Subject	Investment Strategy Statement
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund. The responsibilities of administering authorities are contained in the Local Government Pension Scheme regulations (The Regulations) which are set by the Secretary of State under powers contained in the Public Service Pensions Act 2013 (The Act).

Under powers contained within the Act and the Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016, which replace the 2009 Investment Regulations. The new regulations came into force on 1 November 2016.

Regulation 7(1) of the new Investment Regulations requires administering authorities to formulate an Investment Strategy Statement (ISS) in accordance with the Secretary of State guidance. The ISS replaces the existing Statement of Investment Principles, and the first such document must be published by 1 April 2017.

The Fund's ISS is contained as Appendix to this report and demonstrates compliance with each of the areas required in the new Investment Regulations.

RECOMMENDATIONS

1	That the Committee approve for publication the Fund's Investment Strategy Statement
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REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund. The responsibilities of administering authorities are contained in the Local Government Pension Scheme regulations (The Regulations) which are set by the Secretary of State under powers contained in the Public Service Pensions Act 2013 (The Act).</p> <p>Under powers contained within the Act and the Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016, which replace the 2009 Investment Regulations. The new regulations came into force on 1 November 2016.</p> <p>Regulation 7(1) of the new Investment Regulations requires administering authorities to formulate an Investment Strategy Statement (ISS) in accordance with the Secretary of State guidance (The Guidance). The ISS replaces the existing Statement of Investment Principles, and the first such document must be published by 1 April 2017.</p>
1.02	<p>The Clwyd Fund has reviewed the requirements contained within the new Investment Regulations, and the accompanying guidance, and prepared an ISS, which is attached as an Appendix to this report. The ISS builds on the Fund's existing SIP, and designed to be read as a "stand-alone" document, although it is appropriate to also consider a number of the Fund's other published documents, including the Funding Strategy Statement, the Governance Policy and Compliance Statement and the Actuarial Valuation.</p>
1.03	<p>The ISS addresses each of the requirements of the new Investment Regulations, and is set out in such a way to demonstrate this, whilst still setting out clearly the Fund's aims and objectives, and how they are addressed.</p>
1.04	<p>The main focus of the ISS is to consider the Fund's investment strategy, and three of the seven areas contained in the Guidance are concerned with this. These requirements are:</p> <ul style="list-style-type: none">a) To invest in a wide variety of investments,b) To assess the suitability of particular investments and types of investments,c) To set out the maximum percentage of the total value of all investments that the Fund will invest in particular investments, or classes of investments.
1.05	<p>Each of the requirements shown in 1.04 is considered by the Fund on a regular basis, and in particular when the Investment Strategy is reviewed in line with each Actuarial Valuation. The most recent of these reviews was concluded and the revised strategy agreed by the Committee in September 2016, and updated at the November meeting.</p>

	<p>Whilst the first two requirements set out above would have been things that all LGPS funds should always have been considering, the third requirement is a new one. The previous Investment Regulations set out limits on funds' investments, and was more prescriptive in allowing, or not allowing particular types of investment. The new Investment Regulations allow funds greater freedom over their investments, provided they can demonstrate that they have considered appropriate diversification, and the risks associated with the strategy. The Investment Strategy section of the ISS starts at Page 6 and the agreed strategy is shown on Page 12.</p>
1.06	<p>The next requirement is that funds set out their approach to risk, and include ways in which the risks are to be measured and managed. This is something the Clwyd Fund has considered for a number of years, and has looked to address the liability risk with the Flight-Path strategy. The risk section of the ISS starts at Page 15.</p>
1.07	<p>The remaining three required sections of the ISS are:</p> <ul style="list-style-type: none"> a) To set out the approach to pooling investments b) The approach to including Environmental, Social and Governance (ESG) considerations within the Fund's investment strategy; and c) The policy on exercising rights (including voting rights).
1.08	<p>Members will be familiar with the Fund's approach to pooling as part of the Wales Pool. The ISS sets out this approach and elements of the wording have been drafted by the Wales Pool to ensure some consistency of approach. This section found on pages 19 and 20.</p>
1.09	<p>The Clwyd Fund has for a number of years considered ESG factors when formulating its investment strategy and so compliance with the requirements are not difficult to demonstrate. The Fund's existing Sustainability Policy, which is included in the ISS is not a requirement of the Investment Regulations, but is considered to be best practice, and enables the Fund to demonstrate a joined up approach to considering ESG factors.</p> <p>The Fund has included within the overall Funding and investment aims (on page 4 of the ISS) two additional sustainable objectives, which link to the Sustainability Policy and ensure that this important area is given the appropriate profile and is also monitored.</p>
1.10	<p>Similar to previous requirement the Clwyd Fund has always looked to be an engaged investor, and already has a policy on exercising voting rights. The Fund's statement of compliance with the Stewardship Code is included within the ISS and shows that the Clwyd Fund has an established approach to engaging with companies. The section on ESG and addressing voting rights has been combined and is found between pages 21 and 33.</p>
1.11	<p>As part of the ESG and Voting Rights section of the ISS the Fund addresses "social investments" meaning those that deliver a social impact as well as a financial return. In the Guidance, the Government considers</p>

	<p>that “social investments” are appropriate for LGPS funds where either the social impact is simply in addition to the financial return, or where some financial return is foregone at the expense of social impact. “Social investments” are allowed provided the Fund think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.</p> <p>The Fund is proactive in considering sustainability, and the policy on considering “social investments” can be found on Page 33 of the ISS.</p>
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2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Updates to policies and procedures sometimes require consultation with interested stakeholders, such as employers. Should any policies requiring consultation be updated as a result of the new ISS, then appropriate consultation will be carried out.

4.00	RISK MANAGEMENT
4.01	The ISS is a document demonstrating the Fund’s approach to a number of areas linked to its investments, and as such does not contain anything which affects the Risk Register. The underlying Investment Strategy does impact the Risk Register and this will have been considered when it was approved by the Committee.

5.00	APPENDICES
5.01	Investment Strategy Statement for the Clwyd Pension Fund

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>A copy of the Investment Regulations and associated guidance can be provided on request.</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
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7.01	<p>(a) CPF – Clwyd Pension Fund (The Fund) – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region.</p> <p>(b) PFC – Clwyd Pension Fund Committee (the Committee) – the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.</p> <p>(c) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of.</p> <p>(d) Secretary of State – The Secretary of State for Communities and Local Government, who under the Public Sector Pension Act is the Responsible Authority for the LGPS.</p>
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