

**INVESTMENT STRATEGY**

*Report of the Director of Resources*

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**1. Purpose of the Report**

- 1.1 To propose the Investment Strategy Statement to the Pension Committee for review and approval.

**2. Summary**

- 2.1 The Pension Committee agreed to form a cross party member working group at its November 2016 meeting to review the Hertfordshire Pension Fund's current Investment Strategy and develop a revised strategy for review and approval by this committee. The draft Investment Strategy Statement (ISS), attached as appendix A, sets out the Fund's investment objectives and proposed asset allocations.
- 2.2 As part of its work in preparing the Fund's strategy the member working group worked with Fund officers and the Fund's investment consultant Nick Sykes, Mercer to review the following:
- The Fund's investment beliefs;
  - Risk and return objectives of the Fund;
  - Progression of the funding level since the last Investment strategy review in 2010/11;
  - Asset allocation between growth and defensive assets;
  - Consideration of new asset classes; and
  - The Fund's policy on environmental, social and corporate governance.
- 2.3 The Local Government Pension Scheme (LGPS) - Management & Investment of Funds Regulations 2016 requires all Funds to agree and publish their ISS by 1 April 2017 and then review and revise this statement on a period basis - at least every three years.

**3. Recommendations**

- 3.1 That the Pensions Committee approves the Fund's Investment Strategy

## **4. Background**

4.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations came into force from 1<sup>st</sup> November 2016. These regulations:

- remove many of the investment restrictions imposed on LGPS funds;
- introduce a prudential framework for investment decision making;
- introduce a Power of Direction for the Secretary of State to intervene in the investment function of an Administering Authority if deemed necessary, and
- require all funds to publish a new Investment Strategy Statement (ISS) by 1<sup>st</sup> April 2017.

This statement will replace the Statement of Investment Principles (SIP).

4.2 In order to comply with the regulations, administering authorities must take proper advice; the Fund has worked with Nick Sykes from Mercer in the preparation of the attached ISS. The draft ISS has also been circulated to members of the Pension Board for review and comment.

## **5. Investment Strategy Statement (ISS)**

5.1 The ISS outlines the Hertfordshire Pension Fund's investment objectives. The primary long term objective is to achieve and maintain a funding level at, or close to 100% of the Fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers contribution rates.

5.2 All pension funds are required to prepare, maintain and publish an ISS. This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken account in so doing. Once approved, the latest version will be made available on the Fund's website and a copy is attached as appendix A.

5.3 The regulations require an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS must include:

- A requirement to invest money in a wide range 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 environmental, social 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.

5.4 The officer and member working group has reviewed the requirements as set out in the regulations and the proposed ISS has been drafted to meet the new regulations. The paper attached as appendix B outlines how the issues set out in paragraph 5.3 have been considered and addressed in developing the draft ISS. This includes the following key decisions:

- What the growth/defensive asset allocation needs to be in the context of risk versus return against the funding level;
- Formalising the investment beliefs of the Fund;
- Articulating the approach to ESG whilst still delivering the fiduciary duties of the Fund, and
- Incorporating key decision in relation to asset pooling.

Background papers

Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.