

<b>Committee(s):</b>	<b>Date:</b>
Local Government Pensions Board	5 October 2020
<b>Subject:</b> Pension Fund - Investment Strategy Statement	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Report author:</b> James Graham – Chamberlain’s Department	

### **Summary**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and publish a statement of their investment strategy taking into account guidance issued from time to time by the Secretary of State.

As the administering authority of the City of London Pension Fund (the ‘Fund’), the City of London Corporation has a duty to invest any fund monies that are not needed immediately to pay benefits from the Fund. The purpose of the Investment Strategy Statement (the ‘ISS’) is to document the principles, policies and beliefs by which the Corporation manages the Fund’s investment assets.

The Investment Strategy Statement was first published on 1 April 2017 and is subject to periodic review at least every three years. The revised ISS has been amended to reflect the recent asset allocation exercise undertaken by the Investment Consultant (Mercer) following the triennial actuarial valuation.

It should be noted that the ISS is a “living” document and is subject to periodic review at least every three years.

The Investment Strategy Statement was agreed by the Financial Investment Board at their meeting on 23 September and is presented to this Board as part of the consultation process.

### **Recommendations**

Members are asked to note the revised Investment Strategy Statement as presented at Annex1.

## **Main Report**

### **Background**

1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (2016 Regulations) require administering authorities to formulate and publish a statement of their investment strategy taking into account guidance issued from time to time by the Secretary of State.
2. Under the 2016 Regulations, each Administering Authority was required to publish an ISS by 1 April 2017 and in February 2016, the Board reviewed a draft ISS and agreed to delegate authority to the Town Clerk in consultation with the Chairman and Deputy Chairman to approve the ISS.
3. The ISS is a “living” document and is subject to periodic review at least every three years.

### **Current Position**

4. As the administering authority of the City of London Pension Fund (the ‘Fund’), the City of London Corporation has a duty to invest any fund monies that are not needed immediately to pay benefits from the Fund. The purpose of this Investment Strategy Statement (the ‘ISS’) is to document the principles, policies and beliefs by which the Corporation manages the Fund’s investment assets. The ISS also has links with two other key strategic documents, namely:
  - The Funding Strategy Statement (the ‘FSS’), which sets out the main aims of the Fund and explains how employers’ contribution rates are set to achieve those aims.
  - The Governance Compliance Statement which sets out the structure of delegations of responsibilities for the Fund.

Both statements are incorporated into the Pension Fund Annual Report

5. The 2016 Regulations are quite specific about what is to be included within the ISS. The ISS must include the following:
  - (a) a requirement to invest fund money in a wide variety of investments;
  - (b) the authority’s assessment of the suitability of particular investments and types of investments;
  - (c) the authority’s approach to risk, including the ways in which risks are to be measured and managed;
  - (d) the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;
  - (e) the authority’s policy on how social, environmental or corporate governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
  - (f) the authority’s policy on the exercise of the rights (including voting rights) attaching to investments.
6. 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 investments.

7. The Administering Authority should also consult such persons as it considers appropriate as to the content of the ISS. The Investment Consultant (Mercer) has been consulted and it is proposed that the ISS goes to the next Local Government Pensions Board meeting on 5 October.
8. The Department for Communities and Local Government (now MHCLG) have issued guidance on preparing and maintaining an Investment Strategy Statement and this is attached at Annex 2 for information.
9. Officers have reviewed and updated the ISS. The key changes are as follows:
  - a. As noted in paragraph 6 above, the Regulations require the Board to 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. Consequently, control ranges have been added for each asset class within the strategic asset allocation that was agreed by the Board at its meeting in June 2020 (see paragraph 6 of the ISS). Where actual allocation strays outside of the proposed control ranges, the Board will ordinarily discuss options for rebalancing the portfolio back towards its strategic target. It is not proposed that a deviation outside of the control range will *automatically* trigger a rebalancing exercise as this could force the Fund to transition assets at an inopportune time. The suggested control ranges have been reviewed by the Investment Consultant and are deemed appropriate.
  - b. A section outlining the Fund's treasury management policy is now included in the ISS under section 6.
  - c. The presentation and format of the ISS has been updated to make it easier for users to identify how the Board seeks to comply with each specific regulatory requirement as detailed in paragraph 5 above.
10. The wording concerning the Board's approach to ESG matters (section 10 of the ISS) has been retained and is consistent with the current Responsible Investment Policy. It is anticipated that the Board's approach may evolve over time, and in particular, the ongoing work around the Climate Action Strategy could impact on the Board's approach to ESG considerations for the Fund in the future. Any significant changes to the Board's approach can be captured and agreed by the Board in a revised ISS as they arise.

## Conclusion

11. As the administering authority for the City of London Pension Fund, the City of London is required, under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, to publish an Investment Strategy Statement and to review it periodically at least every three years.

## Appendices

- Annex 1 – Revised Investment Strategy Statement
- Annex 2 – Guidance on Preparing and Maintaining an Investment Strategy Statement.

**James Graham**      Group Accountant  
T: 020 7332 1137      E: [james.graham@cityoflondon.gov.uk](mailto:james.graham@cityoflondon.gov.uk)