

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

<b>Decision Maker:</b>	Pension Fund Panel & Board
<b>Date:</b>	3 March 2017
<b>Title:</b>	Governance: Investment Strategy Statement and Investment Strategy next steps
<b>Reference:</b>	8149
<b>Report From:</b>	Director of Corporate Resources

**Contact name:** Andrew Bouflower

**Tel:** 01962 847407

**Email:** andrew.bouflower@hants.gov.uk

### 1. Executive Summary

- 1.1. This report includes a draft Investment Strategy Statement for the Panel and Board's approval which is a new requirement of the updated LGPS Management and Investment of Funds Regulations 2016, replacing the Statement of Investment Principles.
- 1.2. The report also includes an update on the finalisation of the 2016 triennial Actuarial Valuation and plans for the subsequent review of the Pension Fund's Investment Strategy.

### 2. Investment Strategy Statement

- 2.1. Following consultation in November 2016 the Government published revised LGPS Management and Investment of Funds Regulations. The regulations included the requirement to publish an Investment Strategy Statement by 1 April 2017.
- 2.2. The Regulations require that the Investment Strategy Statement must include:
  - a. A requirement to invest 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 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 rights (including voting rights) attaching to investments.
- 2.3. One of the main aims of the new regulations was to relax the regulatory framework for scheme investments and let administering authorities make their investment decisions within a prudential framework with less central prescription. The regulations therefore contain far fewer investment limits, which were previously reflected in Hampshire's Statement of Investment Principles.
- 2.4. The considering an appropriate response to investment risk some of the previous limits have been retained:
- that no more than 10% of each portfolio can be invested in any individual corporate holding, and
  - that no more that 25% of the Fund can be invested in each managers' in-house investment vehicle.
- 2.5. The draft Investment Strategy Statement does not include the previous limit that no more that 25% of the Fund could be invested in a single passively managed fund, on the basis that the controls in place in the management of these funds mitigate the risk of this additional exposure.
- 2.6. A draft of Hampshire's Investment Strategy Statement is attached in Annex 1. Some sections of the previous Statement of Investment Principles have been largely retained, other sections; such as the maximum limits for different types of investments, approach to risk and statement on investment pooling have been added to comply with the new Regulations.
- 2.7. The Regulations require that the Administering Authority "must consult such persons as it considers appropriate as to the proposed contents of its investment strategy". It is proposed that, following the Panel and Board's agreement, the draft Investment Strategy Statement is published on the Pension Fund's website for scheme members to view and comment on if they wish, and that an email is sent to the Fund's employers inviting them to comment on the draft strategy. The consultation period will be open for 6 weeks, closing on 28 April 2017. All of the comments received will be reported to the Panel and Board at its meeting on 7 July 2017 when the committee will be asked to approve the finalised Investment Strategy Statement.

### **3. Actuarial valuation**

- 3.1. The Pension Fund's Actuary, Aon Hewitt, is in the process of finalising the Fund's 2016 triennial valuation, the statutory deadline for which is 31 March 2017. The results of the valuation are unchanged to those previously reported to the Panel and Board; the Fund's funding position has improved slightly from the last valuation to 81% funded, and the deficit recovery period has reduced to 19 years in line with the original recovery plan.
- 3.2. In the consultation with the Pension Fund's employers on the Funding Strategy Statement an employer raised the question of pre-paying their

pension contributions. This issue has been raised previously in Hampshire and more widely across the LGPS. This has been discussed further with the Fund's Actuary who has raised two issues with this proposal that make it disadvantageous.

- 3.3. The prepayment of contributions is not consistent with the Fund's grouping arrangements for employers, since contributions are shared between employers in the group. In order for an employer to benefit from making prepayments it would have to be removed from the group and therefore not benefit from the risk sharing within the group that has been agreed by employers and the Fund.
- 3.4. Employers seeking to make prepayments would want a discount on the amount of contributions payable. The Fund's Actuary has advised that this should not be viewed as offering a guaranteed return equal to the discount rate on those contributions as there is still the risk that actual returns are less than the discount rate. It is therefore very difficult, if not impossible, to agree a discount that would benefit employers but without passing additional undue risk to the Fund.

#### **4. Investment Strategy Review**

- 4.1. As previously agreed by the Pension Fund Panel and Board, following the Actuarial Valuation the Pension Fund will review its Investment Strategy to determine if there are opportunities to change its strategic asset allocation to improve the chances of achieving its investment target and/or reducing investment risk. The Fund will seek advice from an investment consultant on options for changes to its investment strategy and five firms have been asked to submit tenders for this work.
- 4.2. The appointed investment consultant will report back to the Panel and Board at its meeting on 7 July 2017 with any recommended changes to the Pension Funds asset allocation. These changes will be incorporated into the final version of the Investment Strategy Statement, which the Panel and Board will be asked to agree at the July meeting.

#### **5. Recommendations**

- 5.1. That the Panel and Board note the progress in finalising the Fund's 2016 Actuarial Valuation and the rationale for not offering employers the option to prepay pension contributions.
- 5.2. That the Panel and Board agree the draft Investment Strategy Statement and that it is published for consultation with the Fund's scheme members and employers.
- 5.3. That the Panel and Board note the plan for the review of the Fund's Investment Strategy, finalising the Investment Strategy Statement and the remainder of the report.

**CORPORATE OR LEGAL INFORMATION:**

**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	no
Corporate Business plan link number (if appropriate):	
Maximising well-being:	no
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	no
Corporate Business plan link number (if appropriate):	
<b>OR</b>	
<b>This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because actions are required to continue the appropriate investment of the Hampshire Pension Fund.</b>	

**Other Significant Links**

<b>Links to previous Member decisions:</b>		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
<b>Direct links to specific legislation or Government Directives</b>		

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

<u>Document</u>	<u>Location</u>
None	

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a. The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b. Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c. Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

1.3. There are no direct equalities impacts from the custody services that the Pension Fund receives.

### **2. Impact on Crime and Disorder:**

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

### **3. Climate Change:**

a. How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.