

# WIRRAL COUNCIL

## PENSIONS COMMITTEE

21 JANUARY 2019

<b>SUBJECT:</b>	<b>UPDATE ON INVESTMENT STRATEGY</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION?</b>	<b>NO</b>

### 1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to present to Members a report commissioned as part of the Merseyside Pension Fund's investment strategy review process. The report examines the Fund's beliefs in regards to sustainable or responsible investing.
- 1.2 A letter from Sefton Council informing Committee of a Council Motion in relation to disinvestment from fossil fuel companies is attached at appendix 3.

### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 The administering authority of the Merseyside Pension Fund is required under the LGPS (Management and Investment of Funds) Regulations 2016 to formulate an investment strategy, after taking proper advice and following statutory guidance. The strategy must be published (in an [ISS](#)) and include the authority's policy on Responsible Investment. A process to formally review the investment strategy, in tandem with the 2019 Fund Actuarial Valuation, is now underway.
- 2.2 There is a body of academic literature concerned with the identification and examination of investment beliefs and their relationship to effective pension fund governance. A report published in 2010 by the International Centre for Pension Management noted that:
- Investment beliefs address strategic choices in the investment philosophy and process that affect the future performance of the fund....We find that the beliefs to which a fund adheres affect its success; the thorough consideration of the relationships between beliefs is equally important. (Koedijk, 2010)*
- 2.3 The U.N.-backed PRI organisation has published guidance for asset owners on setting their investment strategy (Principles for Responsible Investment, 2018) that notes:

*Crafting an investment strategy is the first step within an asset owner's overall investment process. Asset owners should craft a clear and explicit investment strategy that comprehensively considers: all long-term trends affecting their*

*portfolios, how the fund fulfils the asset owner's fiduciary duty and how it can operate as efficiently as possible for beneficiaries and other stakeholders.....*

*...To be effectively embedded in the organisation, any responsible investment considerations must be part of the core investment strategy process.*

As a signatory to the PRI, the Fund is committed to integrating RI considerations into all investment decision-making, including the setting of strategy. An examination of the local and global context in which the Fund operates can, in turn, help to develop the Fund's vision for the future and its mission, which may be crystallised into a set of investment beliefs. Building greater clarity around the Fund's core investment beliefs should improve strategy selection and decision-making. Such clarity may improve accountability, but also brings into focus a vision of the Fund's long-term purposefulness as pension investors for and by local government.

2.4 As part of the initiation of the investment strategy review process, a report has been commissioned from the advisory firm Sustineri that examines the Fund's core investment beliefs in relation to responsible investing and long-term sustainability. Wide-ranging interviews were carried out with a select group of stakeholders to provide a unique evidence base for the report's analysis and conclusions. The full report from Sustineri is published at Appendix 1 of this paper. In summary, its findings are:

- Merseyside Pension Fund stakeholders are strongly supportive of the view that environmental, social and governance (ESG) factors are financially material and that their integration in investment strategy is consistent with their responsibility to act in the best interests of all MPF stakeholders and beneficiaries.
- MPF has strong foundations on which to build in this area: the current RI policies are well-aligned to the direction of travel of public policy and markets toward sustainability and engaged ownership practices. Adopting an even more ambitious posture in relation to these trends may serve to 'future-proof' the investment strategy by improving its resilience and by demonstrably serving the values and expectations of stakeholders.
- MPF's strategic investment framework should explicitly relate to the Sustainable Development Goals (SDGs), as an expression of this ambition.
- Stakeholders would like a stronger connection between MPF investment and the Merseyside region; and to improve communication with beneficiaries about its investment activity.
- Adopting a revised set of beliefs in relation to Responsible Investment, drawn from the findings of this report, can play a valuable role in the Fund's strategy review process and would mark a definite step toward

further strengthening the RI approach. A statement of these RI beliefs is set out in Appendix 2.

- 2.5 The investment strategy review process will seek to incorporate the findings of this report, alongside further analysis to be carried out by the Fund's strategic investment adviser (Aon Hewitt). This analysis will also include a focus on RI considerations, particularly in relation to the further development of the Fund's climate risk strategy (including the use of climate scenario analysis).

### **3.0 RELEVANT RISKS**

- 3.1 The Fund's investment strategy is a key element of the management of its investment risk.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 Not relevant for this report.

### **5.0 CONSULTATION**

- 5.1 Consultation has been undertaken with stakeholders in the preparation of the draft report by Sustineri.

### **6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS**

- 6.1 Not relevant for this report.

### **7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 7.1 There are no implications arising directly from this report.

### **8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 8.1 There are no implications arising directly from this report.

### **9.0 LEGAL IMPLICATIONS**

- 9.1 There are no implications arising directly from this report.

### **10.0 EQUALITIES IMPLICATIONS**

- 10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?  
(b) No because there is no relevance to equality.

### **11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS**

- 11.1 There are none arising directly from this report.

### **12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

12.1 There are no planning or community safety implications arising from this report.

### 13.0 RECOMMENDATION/S

13.1 That Members note the report by Sustineri and its recommendations.

13.2 That Members accordingly endorse the Fund's Statement of RI Beliefs.

13.3 That Members agree a reply to Sefton Council.

### 14.0 REASON/S FOR RECOMMENDATION/S

14.1 The recommendations will be taken forward as part of the Merseyside Pension Fund's investment strategy review process.

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### APPENDICES

1. Future Proofing the Investment Strategy, MPF/Sustineri 2018
2. MPF Responsible Investment: Statement of Beliefs
3. Letter from Sefton Council

### BACKGROUND PAPERS/REFERENCE MATERIAL

#### Bibliography

- Koedijk, K. (2010). *Investment Beliefs that Matter: New Insights into the Value Drivers of Pension Funds*. Toronto: International Centre for Pensions Management.
- Principles for Responsible Investment. (2018). *Asset Owner Strategy Guide: How to craft an investment strategy*. London: PRI.

### SUBJECT HISTORY

### BRIEFING NOTES HISTORY

Briefing Note	Date
MPF Climate Strategy Summary	July 2017

<a href="https://mpfmembers.org.uk/content/climate-change">https://mpfmembers.org.uk/content/climate-change</a>	
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**SUBJECT HISTORY (last 3 years)**

	<b>Date</b>
Pensions Committee: Investment Strategy Statement	March 2017
Pensions Committee: Climate Risk Options	March 2016