



Merseyside Pension Fund

Investment Strategy Statement

Wirral Metropolitan Borough Council
As approved by Pensions Committee on

Introduction

This Investment Strategy Statement has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and with regard to relevant guidance. It is reviewed regularly and not less than every three years.

Investment of money in a wide variety of Investments

The Fund invests in a highly diversified portfolio of assets across multiple asset classes on a global basis. Moreover, the Fund seeks to invest in a broad range of uncorrelated asset classes in order to further reduce overall portfolio risk and limit the potential “downside” effects of financial market volatility.

Investment Strategies

The Fund has implemented a choice of investment strategies (“investment buckets”) for employers. These are:

- Higher risk
- Medium risk
- Lower risk

The main Fund investment strategy applies to the “higher risk bucket”. The “medium risk bucket” and “lower risk bucket” provide the option to reduce the level of investment risk that employers take, particularly for those employers that are considering leaving the Fund. In addition, any orphaned liabilities once an employer exits the Fund will generally be moved into the lower risk bucket.

The medium risk bucket’s initial investment strategy is 65% allocation to growth assets and a 35% allocation to defensive assets. The growth and defensive assets in this bucket are the same as the main Fund investment strategy but in the different proportions.

The lower risk bucket is made up of an investment strategy linked to income generating assets which targets a minimum yield above CPI inflation allowing for default, re-investment risk and any other reasonable margins of prudence deemed appropriate.

The maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investments is set out in the Fund’s strategic asset allocation in the table below.

Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail % ¹	Control Range
Equities	43		33.0-58.0
UK Equities		15.2	
Overseas Equities		27.8	
US		4.3	
European (ex UK)		6.5	
Japan		3.2	
Asia Pacific		3.2	
Emerging Markets		4.9	
Global		5.7	
Fixed Income	17		13.0-23.0
UK Gilts		4	
UK Indexed Linked Gilts		9	
Corporate Bonds		4	
Property	11		8.0-14.0
Alternatives	28		23.0-33.0
Private Equity		6	
Hedge Funds		4	
Private Credit		7	
Infrastructure		11	
Cash	1		0.0-6.0
Total	100		

The Fund's portfolio asset diversification policy is reviewed triennially with its Actuarial advisor and on a quarterly basis with its Strategic Advisor and Independent Advisors under the auspices of its Medium-Term Asset Allocation Strategy (MTAA).

The Fund's strategic asset allocation is reviewed and authorised at least every three years by the Administering Authority's Pensions Committee.

The Fund's investment strategy is underpinned by certain core beliefs pertaining to individual asset classes *inter alia*:

- The existence of an equity or volatility *risk premium*, namely that investors are rewarded over the longer term for making investments in equities or other assets that have a return profile that is more volatile than liability matching assets
- There is a liquidity risk premium i.e. investors are rewarded over the longer term for making illiquid investments

¹ The % weights shown reflect the current target implementation in equities and fixed income. The Fund's implementation approach to these asset classes is the subject of ongoing review of the investment strategy and these weights may subsequently be revised.

- Active management of asset allocation can enhance returns by taking active positions against the strategic benchmark within tolerance parameters to control risk
- Active management within asset classes is possible by internal and external managers in order to outperform specific benchmark indices. There are persistent anomalies within asset pricing that can be exploited
- Active management requires the taking of calibrated risk i.e. volatility from the specific benchmark index returns in the short and medium term
- That environmental, social and corporate governance (ESG) factors will materially affect investment performance over the long term (the Fund's Responsible Investment Beliefs are expanded in the Fund's RI policy)
- Integration of ESG factors improves investment decisions in the long-term
- The risks arising from climate change are significant and must be managed proactively

Under the triennial review, the Fund's Scheme Actuary provides a dynamic analysis of assets and liabilities within the context of the overall objectives of the Fund *inter alia* to:

- Achieve a 100% solvency level in a reasonable timeframe;
- Maintain sufficient assets to pay all benefits as they arise;
- Implement a sufficiently prudent funding plan to protect against any potential "downside" outcomes reflecting the demographic characteristics of the Fund;
- Provide a linkage to the Fund's investment strategy and economic outlook based on its actuarial assumptions.

The Fund's Strategic Advisor provides professional advice on the global strategic asset allocation of portfolio investments with the greatest probability of meeting its overall objectives.

In addition to providing a review of the Fund's investment strategy, the Strategic Advisor also provides ongoing monitoring and reporting of both the Fund's assets and liabilities and the resulting progression of the Fund's funding level over time.

Within the shorter-term strategic time horizon, the Strategic Advisor also advises on medium term tactical asset allocation adjustments in order to exploit opportunities arising from a dynamic financial market environment within the tolerance bands set within the triennial strategic asset allocation.

This is undertaken within the Fund's Medium-Term Tactical Asset Allocation framework in which the Strategic Advisor advises and makes recommendations on the magnitude of medium-term tactical positions to be taken around the strategic benchmark in conjunction with officers of the Fund and its Independent Investment Advisors.

The suitability of particular investments and types of investments

The suitability of particular investments and types of investments to reside within the Fund's investment portfolio are analysed within the context of the overall strategic asset allocation. The Fund may also make use of derivatives, either directly or in pooled investments, for the purposes

of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

Explicit investment mandates have been established for external and internal investment managers across all asset classes with clear instructions as to how these mandates are to be managed within a range of defined investment parameters and performance targets.

All investment mandates are reviewed regularly by the Fund's Investment Management Working Party (IMWP) and its Independent Advisors to ensure that returns, risk and volatility are all appropriately managed and remain consistent with the overall strategy of the Fund and the individual portfolio strategies of the Fund's investment managers.

In order to determine that the Fund's policy on asset allocation is compatible with achieving its locally determined solvency target the Strategic Advisor undertakes ongoing monitoring of both the Fund's assets and liabilities in order to ascertain the Fund's direction of travel towards meeting its funding and solvency targets.

A report is produced by the Strategic Advisor and presented to the IMWP on a quarterly basis for discussion.

The approach to risk, including the ways in which risks are to be measured and managed

The Fund recognises that there are various investment and operational risks to which any pension scheme is subject and gives qualitative and quantitative consideration to such risks through the Pensions Committee, Local Pension Board and the Governance & Risk Working Party.

The Fund has a clearly determined approach to its risk tolerance with the objective of optimising the returns from its global investment activities within reasonable risk parameters.

Accordingly, as documented in the Fund's Funding Strategy Statement, the Actuary has identified key risks in the following areas:

- Financial
- Demographic
- Regulatory
- Governance
- Climate change

With regard to its global investment portfolio activities, the principal risks undertaken by the Fund are related to strategic asset allocation, tactical asset allocation and the active management of investment portfolios.

In order to mitigate these risks, the Fund works closely with its appointed Strategic Advisor to establish a highly diversified portfolio of investments across different asset classes and geographies with the greatest probability of meeting its funding and solvency targets. In addition to its core investments in global equities and bonds, the Fund invests in other alternative assets

such as property, private equity, private credit, venture capital and infrastructure where it is possible to identify assets with lower correlations to the mainstream.

Through its Medium Term Asset Allocation framework, the fund seeks to actively control risk by reducing unintended variances from benchmark by periodically correcting positions created by market movements in accordance with the advice of its Strategic Advisor and consultation with its Independent Advisors.

The Fund's approach to pooling investments including the use of collective investment vehicles and shared services

The Council has signed a memorandum of understanding with the administering authorities of the Greater Manchester Pension Fund and the West Yorkshire Pension Fund to create the Northern LGPS ('the Pool') in order to meet the criteria for pooling investments released by Government on 25 November 2015.

The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government (now DLUHC) provided confirmation in January 2017 that it is content for the funds to proceed with the formation of the Pool as set out in the July 2016 proposal. The proposal is available on MPF's website.

The principal benefits of pooling for the funds in the Northern LGPS are in respect of alternative assets where there is greatest scope to generate further economies of scale and to combine resources to make increasingly direct investments. Following detailed discussions and consideration of professional advice, it was agreed in March 2017 by each of the participating funds that in order to meet the Reduced Costs and Excellent Value for Money criterion set by Government most effectively, the Northern LGPS should focus on collective investment in private market assets such as private equity and direct infrastructure. Subject to value for money requirements being fulfilled, private equity and direct infrastructure investments are made via joint ventures and partnerships to enable material cost savings from an early stage. Such structures are in all cases compliant with relevant financial services law. Legacy private market assets (i.e. those entered into prior to the formation of the Pool) are being run-off on a segregated basis.

The Scale and Strong Governance and Decision-Making criteria are met by:

- i) a Joint Committee providing monitoring and oversight of the operations of the Northern LGPS with the Joint Committee constituted so as to separate elected members from any manager selection decisions and;
- ii) appointing an FCA regulated common custodian for the Pool, which has custody of all the pool's actively managed listed assets (i.e. internally and externally managed equities and bonds) and acts as master record-keeper for all pool assets.

Strategic asset allocation continues to be set by each fund's pension committee with the selection of individual investments and investment managers for external mandates carried out on a pooled

basis by appropriately qualified and experienced officers, operating under the legal framework of specialist investment vehicles where appropriate.

All public-market assets and new commitments to private equity and direct infrastructure are monitored and overseen by the Northern LGPS Joint Committee with all assets other than day-to-day cash used for scheme administration purposes being held under the common custody agreement. Day-to-day cash is assumed to be 1% of total assets for each fund.

The Pool will procure the following services, as required, on behalf of the participating funds

- External fund management for public-market mandates
- Common custodian for Pool
- Investment management systems
- Performance analytics
- Responsible Investment advisory services
- Other professional advice

The Northern LGPS Joint Committee is created via the approval of an inter-authority agreement between the administering authorities to the participating funds. The role of the Joint Committee is to:

- i) provide monitoring and oversight of the Northern LGPS to ensure that the pool is effectively implementing the participating authorities' strategic asset allocation decisions;
- ii) oversee reporting to the participating authorities' pension committees.
- iii) act as a forum for the participating authorities to express the views of their pension committees;
- iv) ensure segregation of duties in investment decision-making between elected members and officers;
- v) monitor performance of portfolios;
- vi) monitor the appointment of investment managers

Reporting processes of the Northern LGPS include regular written reports on the performance of Northern LGPS investments to the Joint Committee, which are discussed at formal meetings. The Joint Committee will not be undertaking any regulated activities.

The Northern LGPS' governing documentation grants the Joint Committee and each administering authority certain powers regarding the operation of the Northern LGPS, which can be used to ensure the effective performance of Northern LGPS. MPF's approach to pooling, set out above, will be reviewed periodically to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally. The reviews will take place no less than every 3 years.

A report on the progress of asset transfers will be made to the Scheme Advisory Board on at least an annual basis.

How social environmental or corporate governance considerations are taken into account in the selection non-selection retention and realisation of investments

The Fund's Statement of Beliefs on Responsible Investment is available at:
<https://mpfmembers.org.uk/content/Investment-Strategy-Statement>

Merseyside Pension Fund pursues a policy of Responsible Investment (RI), arising from the belief that environmental, social and corporate governance (ESG) factors will materially affect investment performance over the long term. MPF considers that a holistic approach to investing must consider ESG factors from the outset and at all stages of the decision-making process: from investment beliefs and strategy, across all asset classes and in the strategies selected.

Such an approach is consistent with MPF's view of its fiduciary duty to seek optimal investment outcomes that are in the best interests of all its scheme participants, having regard to a prevailing public service ethos and to the long-term stability of the wider financial system. In setting its high-level strategic framework, MPF will take a forward-looking view of the strategy's sustainable characteristics (for example, by using techniques such as climate scenario analysis).

MPF believes that it can select optimal investment strategies across asset classes that integrate ESG information into quantitative and qualitative analysis, which drives the construction and adjustment of investment portfolios. This allows for the flexibility to consider diverse investment approaches and methodologies as appropriate to the objectives and set parameters of particular mandates.

Under the auspices of the Northern LGPS Investment Pool, MPF evaluates and monitors the RI capability of all its investment managers, with reference to industry standards of best practice. MPF is a signatory of the **Principles for Responsible Investment** and is committed to reporting on its implementation of these Principles and promoting them across the investment industry. The Fund intends to become a signatory to the revised FRC UK Stewardship Code.

MPF makes use of a variety of ESG incorporation² methodologies, within particular mandates (including those managed by the in-house team) where the investment objective includes the optimisation of ESG-related risk and opportunity, alongside an increasing focus on shaping

² The PRI's definition and guidance on ESG incorporation informs this statement: <https://www.unpri.org/investment-tools>

sustainable outcomes. These methodologies include primarily (but not exclusively) ESG fundamental integration and active ownership, with ESG tilts and some norms-based screening applied in index-tracking strategies. For investments in private markets, MPF takes steps to ensure that the investment selection and management process is governed by consideration of material ESG factors over the lifecycle of each portfolio investment.

The values and expectations that determine this policy are imparted through MPF's governance arrangements, which incorporate representation of all Scheme members and employers alongside the Administering Authority. Responsible Investment matters are considered throughout the governance processes that set and monitor the Fund's investment strategy and are regularly reviewed by the Fund's Investment Monitoring Working Party.

MPF regards social impact investing as entirely compatible with investing responsibly and considers such opportunities on a prudent basis (or as a **'finance-first' investor**). Social impact or thematic investing may provide access to diverse opportunities, with lower correlations to other assets, and can deliver acceptable risk-adjusted returns. It is recognized that the positive impacts targeted will, in many cases, closely align to the wider objectives (including financial) of many of MPF's participating employers and scheme members.

MPF seeks to implement its RI policy by collaborating with other investors to benefit from the sharing of resources and leveraging of influence. To a considerable extent, this is through its pool partnership with Greater Manchester Pension Fund and West Yorkshire Pension Fund, the two other member funds of the Northern LGPS Pool. The Responsible Investment Policy for the [Northern LGPS](#) sets out how any environmental, social and governance policies are handled by the pool and how stewardship responsibilities are determined and enacted. It also encapsulates voting policies as detailed below.

The exercise of rights (including voting rights) attaching to investments

MPF considers that practising responsible ownership of its assets is fundamental to investing responsibly over the long-term; and that, in the case of equity investments, the exercise of voting rights is an intrinsic part of the value of share ownership.

MPF's policy with regard to the voting rights attached to its equity investments is to retain control and to exercise those rights to the fullest reasonable extent. Voting activity is not delegated to investment managers, except in circumstances where the structure of a particular investment vehicle necessitates this (but where MPF is able to determine that the manager has sufficient stewardship capability and that this activity can be monitored by the Fund).

The Fund implements its voting policy in partnership with a specialist advisor (currently **PIRC Ltd**) who provides appropriate research and vote execution services for the pool and the fund that cover the major markets in which shares with voting rights are held.

MPF votes in line with the recommendations of its advisor, having judged that the advisor's voting guidelines promote high standards of corporate governance and responsibility and enable MPF to exert a positive influence as shareholders concerned with value and values.

A quarterly report on voting activity is made to the Investment Monitoring Working Party and to the Joint Committee of the Northern LGPS. A summary of voting activity forms part of the Fund's Annual Report. Detailed voting activity information, including where the voting decision has been contrary to a company's recommendation, is made publicly available through the **Fund's website**.

Alongside its voting policy, MPF considers engagement on ESG matters to be integral to stewardship. The focus of its engagement activity (principally, but not exclusively) is the companies in which it invests across its public equity portfolio with the intention for this to be widened to include fixed income holdings.

As such, MPF carries out engagement on a collaborative basis with suitably aligned investors through several organisations (chief among them, the **Local Authority Pension Fund Forum**, of which MPF is a founder member), to ensure that its engagement benefits from scale and clarity of voice. Where boards of investee companies are resistant to dialogue or change, MPF will escalate issues by, for example, voting against the re-election of the Chair of the board. Ultimately, where asset owners refuse to engage or change, MPF will consider adjusting its investments as appropriate to the risks, in accordance with its Responsible Investment policy and its fiduciary responsibilities.

MPF strongly encourages its investment managers to carry out appropriate stewardship as part of the professional practice of asset management across asset classes and to report on that activity to an appropriate standard. It recognises that stewardship in private markets may be less well developed than for public markets and the Fund seeks to promote best practice with its incumbent and potential asset managers. The Fund is actively pursuing ways in which it can participate in proxy voting decisions in respect of its listed holdings in pooled structures.

In addition to disclosing stewardship activities, MPF also recognises that effective stewardship should focus on achieving 'real world' outcomes and undertakes to report annually on the outcomes of its stewardship activities.

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ADMINISTERING AUTHORITY

