

# WIRRAL COUNCIL

## PENSIONS COMMITTEE

3 FEBRUARY 2020

<b>SUBJECT:</b>	<b>REVISED INVESTMENT STRATEGY</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION?</b>	<b>NO</b>

### 1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of proposed changes to MPF's strategic asset allocation following the March 2019 actuarial valuation. Approval is sought for the revised Investment Strategy and the draft Investment Strategy Statement which has been revised in conjunction with the Funding Strategy, the subject of a separate report on this agenda.

### 2.0 BACKGROUND AND KEY ISSUES

#### Statutory Background

2.1 Regulation 7(1) of the LGPS Investment Regulations 2016 requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

2.2 The Investment Strategy Statement required by Regulation 7 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 The Investment Strategy Statement 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 investment.
- 2.4 The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.
- 2.5 The authority must consult such persons as it considers appropriate as to the contents of its investment strategy.
- 2.6 The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

### **Investment Strategy**

- 2.7 In conjunction with the Actuarial Valuation and Funding Strategy Statement (the subject of separate reports on this agenda), investment strategy is reviewed with the Fund's advisors to ensure that the Fund's asset allocation will deliver investment returns over the long term to secure the long-term solvency of the Fund by achieving and maintaining sufficient assets to cover 100% of projected accrued liabilities whilst taking an appropriate level of risk.
- 2.8 Members will note from the Actuarial Valuation and Funding Strategy Statement reports that MPF's overall funding position has improved significantly from 84.6% at March 2016 to 102% at March 2019 – although funding levels will vary from employer to employer. Following extensive consultation with the actuary, the investment consultant, independent advisors and employers, it is proposed to 'lock in' some of the gains achieved and, over the next two to three years, reposition the portfolio towards an investment strategy providing greater capital stability. In general terms, less risky assets provide lower returns and, therefore, will reduce the actuary's assumptions of future asset growth thereby increasing the cost of the Scheme. In revising the strategic asset allocation, officers have sought to strike a balance between risk reduction and affordability. The broad asset allocations in the ISS have been agreed but there are likely to be some minor adjustments to the underlying geographical regional weightings as officers finalise benchmarks. These will not affect the overall modelled returns.
- 2.9 As a further measure, Members will be aware from reports last year that the Fund put in place equity downside protection strategies and the intention is that, subject to funding level and market conditions, these will be extended as they reach maturity.
- 2.10 The ISS has also been revised to reflect the medium and lower risk asset strategies available to employers.

2.11 Consistent with pooling guidance and MPF's objectives to deliver improved performance and cost savings, the Fund continues to seek opportunities to increase the proportion of assets managed by the internal investment team. Following the implementation of an internally managed global factor portfolio in March 2019, it is intended that further internally managed equity portfolios will be put in place as appropriate.

### **3.0 RELEVANT RISKS**

3.1 The ISS is a key component of the Fund's risk framework and the section on 'Approach to risk' addresses the requirements of section (7)(c) of the LGPS Investment Regulations.

### **4.0 OTHER OPTIONS CONSIDERED**

4.1 No other options have been considered.

### **5.0 CONSULTATION**

5.1 Employers have been consulted on the revised FSS and investment strategy.

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

6.1 There are no previously approved actions outstanding.

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

7.1 There are none arising from this report.

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

8.1 There are none arising directly from this report. The ISS documents the Fund's Investment Strategy which has a fundamental impact on the investment performance of the Fund, a key influence on employer contributions.

### **9.0 LEGAL IMPLICATIONS**

9.1 There are none arising 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 no carbon usage implications, nor any other relevant environmental issues arising from this report.

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

12.1 There are none arising from this report.

## **13.0 RECOMMENDATION/S**

- 13.1 That Members approve the revised investment strategy, the revised Investment Strategy Statement and authorise officers to finalising the underlying regional and sub-asset weightings.
- 13.2 That Members note and approve the extension by officers of equity downside protection strategies consistent with the Fund's investment strategy.

## **14.0 REASON/S FOR RECOMMENDATION/S**

14.1 There is a statutory requirement for the Fund to prepare and maintain an Investment Strategy Statement.

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## **APPENDICES**

Revised Investment Strategy Statement

## **BACKGROUND PAPERS/REFERENCE MATERIAL**

Local Government Pension Scheme Guidance on Preparing and Maintaining an Investment Strategy Statement Department for Communities and Local Government September 2016

## **BRIEFING NOTES HISTORY**

<b>Briefing Note</b>	<b>Date</b>

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Pension Committee	March 2019
Pension Committee	July 2019