

Report to : **PENSION FUND MANAGEMENT/ADVISORY PANEL**

Date : 17 September 2021

Reporting Officer : Sandra Stewart, Director of Pensions
Tom Harrington, Assistant Director of Pensions (Investments)

Subject : **INVESTMENT STRATEGY STATEMENT**

Report Summary : The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016.

The Regulations required that GMPF publish an Investment Strategy Statement by 1 April 2017 and thereafter kept under review and revised from time to time and at least every three years.

Officers conducted a full review of the Investment Strategy Statement and a draft was considered and endorsed by the Investment Monitoring and ESG Working Group at their meeting on 16 April 2021.

At their meeting on 30 July 2021, the Working Group considered comments received on the draft Investment Strategy Statement following a public consultation period and subsequent changes proposed to the draft Investment Strategy Statement. The Working Group endorsed the updated draft Investment Strategy Statement.

The updated draft Investment Strategy Statement is attached as **Appendix A**.

Recommendation(s) : That the Management Panel adopt the updated draft Investment Strategy Statement.

Policy Implications: None.

Financial Implications : Maintaining a low, stable employer contribution rate is dependent upon good absolute and relative performance from the Fund's investments. The Investment Strategy Statement documents how GMPF addresses achieving this objective.

(Authorised by the Section 151 Officer)

Legal Implications : The Fund has a duty to review the Investment Strategy Statement when necessary and to consult as appropriate on the content thereof. This report assists in fulfilling that duty.

(Authorised by the Solicitor to the Fund)

Risk Management : The Investment Strategy Statement has at its heart an in-depth consideration of risk as faced by the Fund.

ACCESS TO INFORMATION :

NON CONFIDENTIAL

This report does not contain information which warrants its consideration in the absence of the Press or members of the public.

Background Papers :

APPENDIX 8A	Investment Strategy Statement
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The background papers to this report may be inspected by contacting: Mushfiqur Rahman, Investments Manager, on 0161 301 7145 (email: mushfiqur.rahman@gmpf.org.uk).

1. BACKGROUND – GMPF’S INVESTMENT STRATEGY STATEMENT

- 1.1 A report was submitted to the 10 March 2017 meeting of the Pension Fund Management Panel, which advised Members that an Investment Strategy Statement (ISS) was required to reflect the 2016 Regulations, replacing the previous Statement of Investment Principles.
- 1.2 Government guidance states that Local Government Pension Scheme (LGPS) funds in England and Wales are required to publish an Investment Strategy Statement, which must include:
- A requirement to invest money in a wide variety of investments;
 - The authority’s assessment of the suitability of particular investments and types of investments;
 - The authority’s approach to risk, including the ways in which risks are to be measured and managed;
 - The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;
 - 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
 - The authority’s policy on the exercise of rights (including voting rights) attaching to investments.
- 1.3 Given the short timeframe provided by Government in 2016, an initial interim Investment Strategy Statement was agreed and adopted following consideration by the Panel at their meeting of 10 March 2017.
- 1.4 Subsequently, a full review of the Investment Strategy Statement was undertaken by Officers, and a public consultation was held on a further revised draft Investment Strategy Statement. Officers incorporated feedback from the consultation into the final draft which was adopted by the Management Panel at the meeting of 19 October 2018.
- 1.5 In accordance with the statutory requirement to review the Investment Strategy Statement at least every three years, Officers carried out a full review of the Investment Strategy Statement and a draft was considered and endorsed at the 16 April 2021 meeting of the Investment Monitoring and ESG Working Group.
- 1.6 Following endorsement by the Investment Monitoring and ESG Working Group, a public consultation on the draft Investment Strategy Statement was held between 27 May 2021 and 9 July 2021 (inclusive of these dates). The draft Investment Strategy Statement was placed on a newly created page on GMPF’s website where feedback could be provided. Employers were notified via their regular bulletins and regular Tweets were posted on the Fund’s Twitter account inviting feedback and known activists were personally invited to engage.

2. CONSULTATION RESPONSES

- 2.1 GMPF was pleased to receive 11 responses to the consultation. All 11 responses were related to climate change. No comments were received on any other aspects of the Investment Strategy Statement. Eight of the 11 responses specifically proposed the following wording for paragraphs 9.5 and 9.6 of the Investment Strategy Statement:

9.5. The climate emergency is an urgent, financially material social, economic and environmental risk. The Panel recognises that climate-related risks and opportunities are already financially material to the performance of the investment portfolio and will become even more so over the expected lifetime of GMPF. The International Energy Agency 2021 report states: “There can be no new investments in oil, gas and coal, from now – from this year if the world is to meet net zero emissions by 2050.” Continued investment in assets

that perpetuate and exacerbate the climate breakdown is no longer morally justifiable. Such assets are also financially insecure and will become increasingly so as governments transition to zero carbon technologies and energy sources. Consequently, to protect the financial interests of Fund members and the capacity of the planet to support current and future generations, the Fund will transfer its holdings away from all assets that involve the extraction of fossil fuels. The Fund will decarbonise its portfolio by at least 15% per annum and become zero carbon by 2038 at the very latest, in line with the Greater Manchester decarbonisation pathway.

9.6. The Fund's decarbonisation pathway will be regularly evaluated in line with the latest science and climate risk assessment. GMPF will continue to measure and report its carbon footprint and will seek to utilise the latest methodologies to ensure accuracy and relevance. GMPF reports annually in line with the recommendations of the Taskforce for Climate Related Financial Disclosures.

- 2.2 The debate around divestment of assets versus engagement is best addressed via means other than the Investment Strategy Statement (e.g. through membership of forums such as LAPFF) as the Investment Strategy Statement records GMPF policy, it does not set GMPF policy.

3. UPDATED DRAFT INVESTMENT STRATEGY STATEMENT

- 3.1 Following the public consultation, the following changes to the original draft Investment Strategy Statement are recommended by the Working Group:

- *Addition (underlined) and deletion (strikethrough) to paragraph 9.5:*
The climate emergency is an urgent, financially material social, economic and environmental risk. Climate change is a key financially material environmental risk. The Panel recognise that climate-related risks and opportunities will be financially material to the performance of the investment portfolio and will become ever more so over the expected lifetime of GMPF.~~The Panel believe that, over the expected lifetime of GMPF, climate-related risks and opportunities will be financially material to the performance of the investment portfolio.~~ As such, the Panel will consider climate change issues across GMPF and specifically in areas such as Strategic Asset Allocation, Investment Strategy and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long term economic returns on GMPF's assets.
- *Addition (underlined) to paragraph 9.6:*
GMPF's long term goal is for 100% of assets to be compatible with the net zero emissions ambition by c2050 in line with the Paris Agreement. The decarbonisation goal will be regularly evaluated in line with the latest science and climate risk assessment and GMPF's objective of maintaining long term financial performance. GMPF will continue to measure and report its carbon footprint and will seek to utilise the latest methodologies to ensure accuracy and relevance. GMPF reports annually in line with the recommendations of the Taskforce for Climate Related Financial Disclosures.
- *New paragraph 9.7:*
GMPF, via its membership of the Northern LGPS, is a signatory to the Paris Aligned Investment Initiative's Net Zero Asset Owner Commitment. GMPF will draw on the IIGCC's Net Zero Investment Framework to reach its decarbonisation goal. This includes the setting of interim targets which GMPF is currently developing and will publish in due course.

- 3.2 Officers believe the above proposals buttress the previous changes made regarding climate

change and provide further clarity of GMPF's policy in this regard.

- 3.3 The amendment to paragraph 9.5 of the Investment Strategy Statement addresses the consultation response requests for GMPF to recognise the severity of risk climate change poses. The change made to paragraph 9.6 incorporate the suggestion that GMPF regularly evaluates its decarbonisation pathway using the latest science and climate risk assessment.
- 3.4 The insertion of paragraph 9.7 highlights GMPF's recognition that its decarbonisation journey is best measured and evaluated by setting intermediate milestones in line with IIGCC's Net Zero Investment Framework. This takes into consideration the suggestions from eight of the 11 responses requesting that GMPF reaches its net zero goal by taking incremental decarbonisation steps.
- 3.5 The updated draft Investment Strategy Statement was endorsed by the Investment Monitoring and ESG Working Group at their meeting on 30 July 2021.
- 3.6 The updated draft Investment Strategy Statement is attached as **Appendix A**.

4. RECOMMENDATION

- 4.1 As set out at the front of the report.