

**Report to:** Pension Fund Management Panel

**Date:** 10 March 2017

**Reporting Officer:** Sandra Stewart, Executive Director of Pensions  
Steven Taylor, Assistant Executive 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 require that the Fund publish an Investment Strategy Statement no later than 1 April 2017.

A copy of GMPF's draft Investment Strategy Statement is attached to the Report, for consideration by the Panel.

**Recommendation(s):** That the draft Investment Strategy Statement appended to the report be approved and adopted by the Fund and that the Executive Director of Pensions be authorised to arrange and expend the necessary funds for a stakeholder event within the next 6 months to consult and engage on a new Investment Strategy Statement taking into account Pooling guidelines.

**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 2016 Regulations require that the Fund publish an Investment Strategy Statement no later than 1 April 2017.  
**(Authorised by the Solicitor to the Fund)**

**Risk Management:** Routine investment monitoring and consideration of investment issues facilitates timely action to address investment under-performance and changes in the world economic environment.

**ACCESS TO INFORMATION:** **NON CONFIDENTIAL**

**Background Papers:** The background papers to this report may be inspected by contacting: Michael Ashworth, Investments Officer, on 0161 301 7257 (email: michael.ashworth@gmpf.org.uk).

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

## 1. BACKGROUND

- 1.1 In November 2015, the Government issued a consultation paper “Revoking and Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009”. The Fund submitted a response to the consultation, which closed on 19 February 2016.
- 1.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “2016 Regulations”) came into force on 1 November 2016, revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the “2009 Regulations”). A copy of the 2016 Regulations is attached at **Appendix A**.
- 1.3 The main area of reform introduced by the 2016 Regulations is the deregulation to a ‘prudential framework’ approach. The 2009 Regulations contained a prescriptive list of limits on the proportion of fund money which was permitted to have been invested in certain investment types. This list has been removed from the 2016 Regulations and replaced by a requirement for Funds to set their own prudent limits, which must be disclosed in an Investment Strategy Statement. The Investment Strategy Statement replaces the Statement of Investment Principles (SIP), which was required by the 2009 Regulations.
- 1.4 As a safeguard to ensure that this less prescriptive approach is used “appropriately, and in the best long term interests of scheme beneficiaries and taxpayers”, the 2016 Regulations enable the Secretary of State to intervene in an administering authority’s management of investments.

## 2. GMPF’S DRAFT INVESTMENT STRATEGY STATEMENT

- 2.1 The 2016 Regulations require a Fund’s Investment Strategy Statement to cover the following:
  - A requirement to invest fund 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 and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
  - The authority’s policy on the exercise of rights (including voting rights) attaching to investments.
- 2.2 In September 2016, the Department for Communities and Local Government (DCLG) issued “Guidance on Preparing and Maintaining an Investment Strategy Statement”, which is attached as **Appendix B**. The 2016 Regulations contain a requirement that a Fund’s Investment Strategy Statement be formulated in accordance with this Guidance.
- 2.3 The majority of the Investment Strategy Statement content mirrors the requirements of the current SIP. A copy of GMPF’s draft Investment Strategy Statement is attached at **Appendix C**.

- 2.4 The main differences between the draft Investment Strategy Statement and the current SIP are threefold. Firstly, the new Appendix to the draft Investment Strategy Statement broadly replicates the prescriptive limits on investments that the Fund adhered to under the 2009 Regulations, with minimal amendments specifically designed to provide 'headroom' for the Fund's approved programmes of alternative investments to be implemented by way of limited partnerships.
- 2.5 Secondly, a new section has been incorporated into the draft Investment Strategy Statement, which describes the Fund's approach to Pooling (Section 8). This section, largely drawing upon the Northern Pool's submission to Government, is intended to be common to each of the Fund's within the Northern Pool.
- 2.6 Thirdly, the requirement to report on the Fund's approach to Environmental, Social and Governance factors has been enhanced. For example, Funds are now required to explain their policy on stewardship with reference to the Stewardship Code. The draft Investment Strategy Statement therefore explicitly states that the Fund is a 'Tier 1' signatory to the Stewardship Code (Section 9.2). The draft Investment Strategy Statement also sets out the Fund's approach to Social Investments (Section 9.5), and confirms that the Fund will report on its voting activity as part of its Annual Report (Section 10.2).
- 2.7 It has been an exceptionally busy time for the Fund recently. In addition, Government provided a relatively short timeframe for Funds to formulate an Investment Strategy Statement. The attached draft Investment Strategy Statement is thus the result of a relatively 'light touch' review, in order for the Fund to meet the statutory deadline for publication of an Investment Strategy Statement by 1 April 2017. The draft Investment Strategy Statement largely mirrors the approach taken by the Fund within the preceding SIP, with only relatively minimal amendments and may thus be considered to be an interim position, pending progress on pooling and developing the Fund's approach in certain areas.
- 2.8 Panel Members will recall that the Fund's current Statement of Investment Principles (SIP) was adopted by the Management Panel relatively recently, on 11 December 2015. A very thorough review of the SIP was undertaken at that time. A public consultation was also held, with the draft SIP being placed on the Fund's website. A direct alert was also sent to each employer. The consultation ran from Tuesday 11 August 2015 to Friday 4 September 2015.
- 2.9 The Fund was pleased to receive 406 responses to the consultation, which was an excellent response rate. Of the 406 responses, 400 were the result of an organised petition based on an automated email template produced by Manchester Friends of the Earth (FoE). After consulting with the Solicitor to the Fund (Now the Director of the Fund), one change to the draft version of the SIP on which the Fund consulted was made, reflecting the wording requested by Manchester FoE. and may thus be considered to be an interim position, pending progress on pooling and developing the Fund's approach in certain areas.
- 2.10 It is intended that officers will undertake a more detailed review of the Investment Strategy Statement in the next 6 to 9 months, the outcome of which may or may not require a revised Investment Strategy Statement being recommended for adoption by the Panel.
- 2.11 It is anticipated that a public consultation will be held in conjunction with the detailed review.
- 2.12 It is intended that the Fund will hold a Stakeholder Engagement event later in the year, at which the Investment Strategy Statement will be consulted upon.

### **3. RECOMMENDATION**

- 3.1 As set out on the front of the report.