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West Northamptonshire Council

Pension Fund Committee

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Report title	Multiple Investment Strategies
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Approvers

MO	Julia Rickards on behalf of Catherine Whitehead	05/07/2024
S151	James Smith on behalf of Martin Henry	28/06/2024
Head of Pensions	Mark Whitby	21/06/2024

List of appendices

Appendix A None

1. Purpose of report

1.1. To seek approval from the Committee to carry out detailed modelling to review the possible impact of having multiple investment strategies for Fund employers.

2. Executive summary

2.1 This report sets out a recommendation and seeks approval for detailed modelling of the potential impact of having multiple investment strategies for Fund employers.

2.2 Following the 2019 triennial valuation officers investigated, and reported to the Pension Fund Committee, the potential benefits of implementing a framework where the Fund offered multiple employer investment strategies to meet the different needs of the diverse groups of employers participating in the Fund.

2.3 The modelling at that time did not show any material improvement in funding outcomes for employers by introducing such a framework but did suggest that it would be worth reviewing in the future if market conditions and the funding position of the Pension Fund were significantly different.

2.4 As part of the 2024-2027 business plan, the Pension Fund Committee approved an initial review, by the Fund Actuary, to determine if conditions had changed significantly enough to warrant looking again at the potential impact of introducing a framework for multiple employer investment strategies.

2.5 The Actuary has completed the initial review and has recommended that conditions are significantly different to those at the previous investigation and that a further detailed review would be justified.

3. Recommendation

3.1 The Pension Committee is asked to approve the contents of the report.

4. Reasons for recommendation

4.1 To ensure that the Fund is achieving the best funding outcomes for the Fund's employers whilst ensuring that contribution rates are as stable as possible.

5. Report background

5.1 The Pension Fund Committee previously considered the possibility of introducing multiple employer investment strategies following the 2019 triennial valuation. Detailed modelling at that time did not identify any material improvements from implementing such a framework and the decision was taken not to do so at that time. The modelling did however suggest that it may be worth reconsidering that decision if the funding level of the Pension Fund and wider economic conditions were to change significantly.

5.2 The previous modelling looked at possible outcomes from the introduction of three notional investment buckets for different employer groups:

5.2.1 Bucket A – Council's, Further Education Bodies, Academies, Transferee admission bodies (contractors) with a guarantor, and Community Admission Bodies (e.g. Charities) that are open to new members and have a formal guarantee in place. These employers have a funding target based on a lower level of prudence (the ongoing basis).

5.2.2 Bucket B – Community Admission Bodies without a formal guarantee and/or poor funding levels and Resolution bodies (Parish/Town Councils and other small precepting authorities). These employers have a funding target based on a higher level of prudence (the exit basis).

5.2.3 Bucket C – Community Admission Bodies who are well funded and other ceased employers with no guarantor. These employers have a funding target set against the exit basis.

5.3 As part of the business plan activities for 2024, the Pension Fund Committee approved an initial review to determine if conditions had changed sufficiently to justify detailed modelling to facilitate a full review of the impact of multiple investment strategies on Fund employers.

5.4 The Fund has an obligation to ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer.

5.5 The investment strategy and expected returns from it have a significant impact on the contribution strategy set for each employer. All else being equal, the greater the expected returns, the lower the contribution requirement is for employers.

5.6 The Fund currently has a single investment strategy covering an increasing number and variety of employers with different funding requirements, which means that, for some employers, we may not be achieving the lowest possible stable contribution strategy.

5.7 Different employers have differing levels of maturity within their membership, different funding targets and different investment risk appetites. A single investment strategy therefore does not necessarily cater for these different employer profiles.

5.8 The introduction of multiple investment strategies could allow the Fund to better meet the needs of different groups of employers by assigning returns from a mix of asset classes better aligned with the needs of each group of employers.

5.9 A single investment strategy would still exist at Fund level but having a small number of notional "investment buckets" within this would allow the Fund to assign returns from different mixes of asset classes to provide different levels of growth or protection, depending on what is trying to be achieved, e.g. low risk/low return for well-funded employers close to exit or higher risk/higher return for those with the ability to absorb greater volatility.

5.10 The actuary has identified that a detailed review would be warranted due to a significant change in the funding level of the Pension Fund, financial markets and the wider economic environment.

6. Issues and choices

Rationale and proposals for details review

1.1 Since the previous decision of the Pension Fund Committee, and since the most recent formal valuations at 31 March 2022, there has been significant change in the financial markets and economic environment.

1.2 The Fund now has a very strong past service position, and recent Funding updates at 31 March 2024 showed a funding level of 146%, an improvement from 111% at 31 March 2022.

1.3 This improvement has largely been driven by rising interest rates increasing market expectations for long term future investment returns and reducing the value of the liabilities. The returns on the Fund's investments since 2022 have been slightly less than anticipated (although investment performance has picked up over recent months), however in essence the Fund is holding a similar amount of assets today, as it did on 31 March 2022, for every £ of pension it expects to pay out. Therefore, the increases in funding levels have not been driven by an actual increase in the money held to pay out each £ of pension (as per previous valuation cycles), but rather by the promise of greater future returns.

1.4 The Actuary has proposed to carry out asset-liability modelling to help the Committee understand the potential impact of multiple employer investment strategies. This modelling would consist of varying the investment strategy to determine whether better outcomes are achieved for certain groups of employers according to the group's funding needs.

1.5 This modelling is similar to that used as part of the valuation exercise to set contribution rates for stabilised employers. The model allows the Actuary to project forward a share of assets and liabilities under 5,000 different economic scenarios. The output from the model includes metrics which can be compared to assess how the different employer groups perform under different investment strategies.

Employer groups to be modelled

1.6 Due to various distinctive characteristics the Actuary has proposed to initially model the following three groups of employers:

1.6.1 **Group A** - Councils and other secure, stabilised employers (please note this does not include any resolution bodes, such as Town & Parish Councils).

1.6.2 **Group B** - Academies. This group of employers are similar to group A in that they are very secure (due to the existence of the DfE Guarantee) and the same "ongoing" funding objective applies. This group differs to Group A in that the membership is far less mature; specifically, the proportion of active members is far greater for the Academies Group, and this is an important consideration when designing a suitable investment strategy.

1.6.3 **Group C** - Closed Community Admission Bodies who are over 100% funded on the lower-boundary of exit basis corridor, plus all other ceased employers with no guarantor.

1.7 Please note that contractors and resolution bodies have not been included in this modelling. The number of contractors holding funding risk is diminishing. The vast majority of contractors now participate in the Fund under pass-through agreements where the assets and liabilities, and therefore the funding risk, are retained by the contracting Scheme employer. In most cases a Council or Academy Trust. The results from the modelling for these groups could be extrapolated and applied to contractors.

1.8 The relative size of resolution bodies means that inclusion in the modelling would have no material effect on the results. Resolution bodies are a unique type of employer and though they are similar in size to community admission bodies and would have their exit funding position assessed on the same basis, they are expected to be long term employers and therefore a longer-term investment strategy, similar to groups A and B could be more appropriate than one specifically targeting an exit similar to group C. Once the results of the modelling are known we will be able to better decide within which group to include resolution bodies.

Investment strategies to model

1.9 The Actuary has proposed to model a range of different investment strategies for each employer group so the Pension Fund Committee can fully understand the effect of different strategies on future outcomes. The Fund's latest target asset allocation would be modelled alongside two other de-risked investment strategies.

1.10 The exact alternative strategies to be modelled will be agreed with officers with input from the Fund's investment consultants.

Fees and timescale

1.11 The actuary has quoted a cost of £25,000 (plus VAT) to carry out this modelling, this is a reduction on the cost of the previous review (approximately £35,000). The results, including a detailed report setting out the summary of the output and recommendations would be expected to be delivered in the early part of quarter 4 in time for an update to be provided at the December meeting of the Pension Fund Committee.

7. Implications (including financial implications)

7.1 **Resources and financial**

7.1.1 The proposed modelling would cost £25,000 (plus VAT)

7.2 **Legal**

7.2.1 There are no legal implications arising from the proposals.

7.3 Risk

7.3.1 The mitigated risks associated with this report have been captured in the Fund's risk register as detailed below -

Risk	Residual risk rating
Failure to respond to changes in economic conditions	Amber
Fund assets are not sufficient to meet obligations and liabilities	Amber

7.3.2 The executive summary of the Northamptonshire Pension Fund risk register can be found here.

7.4 Relevant Pension Fund objectives

7.4.1 The following objectives as per the Business Plan have been considered in this report -

- To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- To ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
- To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
- To ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer.
- To ensure the long-term solvency of the Fund, taking a prudent long-term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- To put in place a strategic asset allocation ensuring it is appropriately maintained taking into account the Funding strategy.
- To maximise investment returns over the long term within agreed risk tolerances.

7.5 Consultation

7.5.1 The Fund Actuary has provided the initial recommendation and proposals set out in this paper.

8. Background papers

8.1 None