



West Northamptonshire Council

Pension Committee

15/12/2021

Mark Whitby – Head of Pensions

Report Title	Investment Strategy Statement
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Contributors/Checkers/Approvers

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List of Appendices

- Appendix A – Responses to the consultation to the draft Investment Strategy Statement
- Appendix B – Summary of feedback on consultation for publication on the Fund's web pages
- Appendix C - Revised draft Investment Strategy Statement
- Appendix D – Revised draft Investment Strategy Statement with tracked changes

1. Purpose of Report

- 1.1. To The purpose of this report is to present to the Pension Committee (PC) for approval the revised Investment Strategy Statement (ISS) incorporating the Fund's draft Responsible Investment Policy recommended by the Investment Sub Committee (ISC).

2. Executive Summary

- 2.1 The Fund is required to maintain an ISS as described by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- 2.2 The Fund 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. The Fund last approved its ISS on 23rd March 2018.
- 2.3 The ISS should include, amongst other things, the Fund's policy on responsible investment (RI) matters, namely how social, environmental and corporate governance considerations are taken into account and the policy on the exercise of the rights (including voting rights) attaching to investments.
- 2.4 Following a significant amount of work over the last eighteen months by the Pension Committee (PC), Local Pensions Board (LPB) and Fund Officers, with support from third party advisors, an enhanced approach to RI matters was incorporated in a draft of the Fund's ISS presented for review to the PC on 26th March 2021.
- 2.5 Subsequent to the 26th March meeting, Pension Fund employers and members have been consulted and invited to provide feedback on the contents of the draft ISS, with specific questions relating to the RI section.
 - 2.5.1 150 responses were received to direct email requests to over 36,000 members and employers of which two responses were from scheme employers. The consultation questions and summary of responses are attached as Appendix A. Overall, the consultation responses were supportive of the ISS document and the policies therein.
 - 2.5.2 No substantive changes have been made to the RI policy or other sections of the ISS arising from the consultation, but the opportunity has been taken to revisit the wording to improve the consistent usage and explanation of terminology.
- 2.6 A summary of the feedback and actions arising from the consultation has been prepared for publication on the Fund's web pages and is attached pages. This is attached as Appendix B.
- 2.7 The final draft ISS attached at Appendix C was reviewed by the ISC on 20th September 2021 and no issues were raised. The PC have the authority to approve the ISS.

3. Recommendations

- 3.1 The PC is asked to:
 - 3.1.1 Approve the Investment Strategy Statement for publication on the Fund's web pages;
 - 3.1.2 Approve the summary of feedback from the consultation that will be published on the Fund's web pages.

4. Report Background - Regulations

- 4.1 The Fund is required to maintain an ISS as described by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

- 4.2 The ISS should set out the approach of the Pension Fund to investments that includes, amongst other things:
- (a) a requirement to invest fund money in a wide variety of investments;
 - (b) the assessment of the suitability of different types of investments;
 - (c) the approach to risk, including the ways in which risks are assessed and managed;
 - (d) the approach to pooling investments;
 - (e) the policy on how social, environmental and corporate governance considerations are taken into account; and
 - (f) the policy on the exercise of the rights (including voting rights) attaching to investments.
- 4.3 The Fund's investment strategy must 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.
- 4.4 The Fund 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. The Fund last approved its ISS on 23rd March 2018.
- 4.5 The Fund must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

5. Issues and Choices

- 5.1 The Fund has recently undertaken a major review of its investment strategy to strengthen its RI principles.
- 5.2 A consultation has been undertaken to seek the views of scheme employers and members on the revised RI strategy which is incorporated in a draft ISS.
- 5.2.1 The consultation was launched in May 2021, with email invitations to respond issued to all scheme employers and those members (active, deferred and pensioners) for whom a live email address is held in the Fund's records. Approximately 36,000 invitations were sent. 150 responses were received before the end of the four-week consultation period.
- 5.2.2 The results of the individual questions asked in the consultation are attached as Appendix A, showing the percentage of the 150 respondents who scored the questions on a five-point scale: Strongly agree, Agree, Neutral, Disagree, Strongly disagree.
- 5.2.3 Scoring was supportive of the document and policies therein:
- 5.2.3.1 Favourable scores (Strongly agree and Agree) were in the range 61% to 91%.
 - 5.2.3.2 Negative scores (Strongly disagree and Disagree) were in the range 3% to 9%.
- 5.2.4 In addition, respondents had the option to add narrative feedback. The key themes stated were as follows:
- The ISS is a technical document not easily read or understood by the layman, however, some respondents stated that it was a clear document that was easy to read.
 - A number of respondents who Disagreed or Strongly Disagreed with the content of the ISS were concerned that it catered too much for ESG or climate issues and these were not problems that the pension fund should be seeking to mitigate.

- Strong approval for the fund to seek the highest investment returns in order to pay pensions.
- A minority qualified their scoring stating that seeking returns should not ignore ESG issues.
- A larger minority stated that they did not want any change to strategy that might prejudice payment of the pensions that they had contributed to for so many years.
- Divestment was mentioned a number of times as was the screening out specific types of investment in organisations involved with armaments, pornography, multi-nationals who avoid tax, etc.

5.2.5 The final question requested respondents to score their opinion on the document as a whole: -

“The revision of the Investment Strategy Statement has focussed mainly on updating the Responsible Investment Policy recognising the material Environmental, Social, and Governance risks to Fund assets. In doing so, the Fund is able to participate in supporting the Green Economy and sustainable investment themes, whilst encouraging the Fund's investment managers to hold appropriate stock to drive the change required to meet National and Global expectations to mitigate key ESG concerns, such as climate change. Do you agree that the policy has achieved this?

Responses were:

Strongly agree and agree	62%
Neutral	33%
Strongly disagree and disagree	5%

5.2.6 A summary of the feedback and actions arising from the consultation has been prepared for publication on the Fund’s web pages and is attached as Appendix B for review by the Committee.

5.3 In parallel with the consultation survey, an external consultancy, Minerva, has been engaged by the ACCESS pool to assist in documenting RI guidance for the ACCESS pool, building upon the RI policies of each of the eleven ACCESS partner funds. Minerva have conducted a gap analysis of the RI policies of each of the eleven funds. Initial feedback on the gap analysis, broken down into 5 areas of analysis: Governance, Investment approach, Implementation, Stewardship, Reporting, was that:

5.3.1 The fund achieved the joint highest score across all 11 funds for reporting.

5.3.2 Overall, Northamptonshire Pension Fund was ranked joint 3rd (with Cambridgeshire) out of 11.

5.3.3 The review has highlighted areas of focus:

- Clarifying the purpose of the RI policy – now updated in the draft ISS;
- Reference to the Fund’s conflicts of interest policy - under development of a separate work stream.

5.4 In response to the consultation responses and feedback from Minerva, officers have taken the following actions:

5.4.1 Reviewed the entire ISS document, focussing on the main ISS elements that were not reviewed in the draft distributed, aiming to make it easier to read, using terminology consistently and, avoiding or explaining acronyms and jargon;

5.4.2 Added additional explanation of:

- The roles of PC and ISC
- The scope of the investment strategy required by the Investment Regulations

- The Fund having an Independent Adviser
 - The strategic asset allocation and periodic rebalancing back to central strategic target allocations
 - Pooling, expanding upon the objectives of pooling, and size and composition of ACCESS. Clarifying usage of terminology for the ACCESS pool, ACCESS ACS (Authorised Contractual Scheme), ACCESS funds, pool operator etc.
- 5.4.3 Added a specific new risk on climate to align with the Fund’s Risk Register;
- 5.4.4 Explained the Background and objective of the RI policy;
- 5.4.5 Noted that the policy prioritises the next steps which are mainly research that will inform subsequent steps and a further iteration of the RI Policy;
- 5.4.6 Expanded the explanation of engagement and why this is preferred over divestment but if engagement is ineffective, the fund would consider divestment.
- 5.5 The Fund’s RI beliefs, embedded in the ISS, include a commitment to support the objectives of the Paris Agreement, and the belief that keeping a global temperature rise this century to well below 2°C relative to pre-industrial levels is entirely consistent with securing strong financial returns.
- 5.6 In the period since the RI beliefs were drafted, there has been increased focus on carbon-related global warming and, in support of the targets in the Paris Agreement, many businesses and asset owners have published target dates by which they will reach “net-zero” carbon emissions, in the context of the UK Government’s target to become “net-zero” by 2050.
- 5.7 It is proposed that over the next twelve months, in conjunction with the existing work scheduled by Mercer to draft the Fund’s first report that meets the requirements of the Task Force of Carbon-Related Financial Disclosures (TCFD), the Fund investigates the feasibility together with a credible plan with milestone dates, for the Fund’s investments to achieve “net-zero” carbon emissions.
- 5.8 Compliance with the TCFD involves a number of activities, including climate change scenario analysis and carbon foot-printing as well as the drafting of an annual report. Mercer will provide support to the Fund in producing the requisite data and drafting the first report to comply with TCFD requirements. The UK Government have issued for consultation the dates by which larger corporate pension schemes must report under TCFD and in 2023 will be reviewing the dates and the potential application to funds such as the LGPS.
- 5.9 The final draft ISS is attached at Appendix C with a tracked changes version attached as Appendix D.
- 5.10 Once approved, the final ISS will be published on the Fund’s website.

6. Implications (including financial implications)

6.1 Resources and Financial

- 6.1.1 All internal costs will be met by existing resources and the cost of the Fund’s Investment Consultants’ Mercer, are included within the 2021/22 budget. Any further financial implications will be included in Pension Committee reports as required.

6.2 Legal

- 6.2.1 There are no legal implications arising from the proposals.

6.3 Risk

- 6.3.1 The PC have the authority to determine the Fund's investment objectives and to set and review the long-term high-level investment strategy to ensure these are aligned with the Fund's specific liability profile and risk appetite. In proposing the strategy to the PC the ISC are advised by external professional Investment Consultants, Mercer Ltd and additionally supported by the Fund's appointed independent Adviser.
- 6.3.2 There are no significant changes to the Fund's risks arising from the proposed recommendations in this report.
- 6.3.3 The risks associated with the Fund's investment strategy have been captured in the Fund's risk register as detailed below.

Risk No.	Risk	Residual risk rating
Investment (Risk 3)	As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.	Amber
Investment (Risk 5)	Fund assets are not sufficient to meet obligations and liabilities as they become payable.	Amber
Investment (Risk 20)	Failure to act appropriately upon expert advice and/or risk of poor advice.	Green
Investment (Risk 24)	Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

The Fund's full risk register can be found on the Fund's website at the following link:
<https://pensions.northamptonshire.gov.uk/governance/key-documents/northamptonshire/>

6.4 Relevant Pension Fund Objectives

6.4.1 The following objectives 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 employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer.
- 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.

6.5 Consultation

6.5.1 The scheme members and employers have been consulted as set out in section 5.

7. Background Papers

7.1 None.

