



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>20 February 2020</b>
<b>Classification:</b>	<b>General Release</b>
<b>Title:</b>	<b>Draft Investment Strategy Statement and Investment Beliefs</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over Council Activities</b>
<b>Financial Summary:</b>	<b>There are no financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <i>Tri-Borough Director of Treasury and Pensions</i> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1. EXECUTIVE SUMMARY

- 1.1 As per the Local Government Pension Scheme (LPGS) Management and Investment of Funds Regulations 2016, the Westminster Pension Fund is required to publish an Investment Strategy Statement (ISS).
- 1.2 Attached is a draft ISS, which sets out the Pension Fund's policy on investment, risk management, LGPS pooling and ethical, social and governance (ESG) issues, for both its own investments and those being managed through the London Collective Investment Vehicle (LCIV).
- 1.3 Based on questionnaire feedback from Pension Fund Committee members, the Fund's investment consultant, Deloitte, has drafted a set of investments beliefs for the Fund which, subject to approval and edit by the Pension Fund Committee, will be adopted and form a core part of the Fund's investment strategy going forward.

## **2. RECOMMENDATIONS**

The Committee is invited:

To consider the draft investment beliefs, with a view to establishing a final draft to be adopted by the Pension Fund.

To consider the draft Investment Strategy Statement (ISS), with a view to establishing a final draft to be adopted by the Pension Fund.

To delegate authority to the Tri-Borough Director of Treasury and Pensions in consultation with the Chairman to publish the final Investment Beliefs and the ISS.

## **3. INVESTMENT STRATEGY STATEMENT**

3.1 The ISS sets out the requirements of the LGPS legislation and the Pension Fund Committee's terms of reference. The ISS has been prepared in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Preparing and Maintaining an Investment Strategy Statement.

3.2 The six main objectives of the legislation are then detailed in relation to Westminster City Council's Pension Fund policies and strategies. These are:

- Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments. This sets out how the investment strategy deals with diversification and return to meet the long term objectives of the fund;
- Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment. This sets out how the Pension Fund Committee assesses the suitability of investments and measures their suitability;
- Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed. This sets out how the Pension Fund Committee assesses the different types of risk in order to establish what is acceptable to ensure that the fund meets its obligations;
- Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles. This sets out the Pension Fund Committee's approach to LGPS pooling and also what the LCIV can offer in terms of investment opportunities;
- Objective 7.2(e): How environmental, social and governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments. This sets out how the Fund meets these obligations, and also how potential investments with the LCIV will comply with these obligations;

- Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments. This sets out how the Fund meets these obligations and also how potential investments with the LCIV will be dealt with.
- 3.3 The ISS also deals in turn with the Funds compliance with the CIPFA Pensions Panel Principles for investment decision making in the LGPS, shown as Appendix A of the ISS. These six principles cover a range of factors as follows:
- Effective decision-making
  - Clear objectives
  - Risk and Liabilities
  - Performance Assessment
  - Responsible Ownership
  - Transparency and Reporting
- 3.4 The Fund's compliance with the Stewardship Code 2020 Guidance is set out within Appendix B of the ISS. The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but, if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so. The LCIV's Stewardship Statement can be found within Appendix C of the ISS.
- 3.5 The Fund's Responsible Investment policy is set out in Appendix D of the ISS. The purpose of this policy document is to lay out the Fund's approach to how environmental, social and governance (ESG) considerations are considered in the selection, non-selection, retention and realisation of investments.
- 3.6 The strategic asset allocation of the Fund can be found within Appendix E of the ISS (as per the draft recommended asset allocation following Deloitte's investment strategy review). This sets out the target asset allocation to a variety of assets as well as the review ranges. Once the review range of an asset is triggered, a rebalancing exercise should be undertaken to ensure the Fund stays within its target allocation limits. It is recommended that the Committee approves these asset review ranges.

#### **4. INVESTMENT BELIEFS**

- 4.1 The objective of the Investment Beliefs is to set out the Fund's key investment beliefs. These beliefs will form the foundation of discussions, and assist decisions, reference the structure of the Fund, its strategic asset allocation and the selection of investment managers.
- 4.2 When considering the Committee's investment beliefs, it is useful to consider the six objectives within the LGPS (Management and Investment of Funds) Regulations, listed in section 3.2 of this report. A clear set of investment beliefs can help achieve good governance by providing a framework for all investment decisions.

4.3 The draft Investment Beliefs are attached at Appendix 2 and fall into five key areas. The Committee is invited to consider its views reference the beliefs as well as offering any further views of its own. The key areas are below:

- Investment governance
- Long term approach
- Environmental, social and governance (ESG) factors
- Asset allocation
- Management strategies

## **5 IMPLICATIONS FOR THE PENSION FUND COMMITTEE**

5.1 The ISS as presented, sets out the requirements of the Regulation, and Statutory Guidance with regard to the management of the Westminster Pension Fund.

5.2 It includes elements of the LCIV's ISS which will apply to the investment categories the Fund has invested through the LCIV.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

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### **BACKGROUND PAPERS:**

None.

### **APPENDICES:**

Appendix 1 – Investment Strategy Statement

Appendix 2 – Investment Beliefs