

<b>COMMITTEE</b>	<b>PENSIONS COMMITTEE</b>
<b>DATE</b>	<b>10 NOVEMBER 2015</b>
<b>PURPOSE</b>	<b>Confirm investment limits and agree consultation process</b>
<b>TITLE</b>	<b>STATEMENT OF INVESTMENT PRINCIPLES</b>
<b>AUTHOR</b>	<b>CAROLINE ROBERTS, INVESTMENT MANAGER</b>

## **1. INTRODUCTION**

- 1.1** It is necessary to review the Pension Fund's Statement of Investment Principles (SIP). The full process requires consultation with interested parties and should be completed by March 2016. However, there are three decisions that need to be made now.

## **2. LIMITS ON INVESTMENTS**

- 2.1** Schedule 1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 sets limits for different types of investments. At the meeting of the Pensions Committee held on 23 March 2012 decisions were made to increase some of the limits to the maximum amounts as permitted under the regulations as follows:
- Increase the sum that can be invested in any single insurance contract to 35%.
  - Increase the limit for all contributions to any single partnership to 5%.
  - Increase the total of all contributions to partnerships to 15%.

and that these decisions would be reviewed after three years.

- 2.2** Therefore it is necessary to review the decisions that were made and consider whether they are still appropriate for the pension fund.

### **3. THE REGULATIONS**

- 3.1** The Regulations give the right to administering authorities to increase the percentages to be held in some types of investments to the maximum stated in the Regulations. Before an administering authority can decide to increase the investment limits it must comply with the following requirements:
- it must have taken proper advice;
  - that its investment policy must be formulated with a view to the advisability of investing fund money in a wide variety of investments and to the suitability of particular investments and type of investments;
  - the decision must specify:
    - a) the description of investment to which it applies;
    - b) the limit on the amount of the investment;
    - c) the reason for that decision;
    - ch) the period for which that decision will apply;
    - d) if the authority intend to review the decision before the end of the period in (ch), the date when the decision will be reviewed; and
    - dd) that the decision complies with these Regulations.
- 3.2** In revising the previous decisions to increase the percentage it is necessary to comply with the above requirements again.
- 3.3** The Administering Authority must also revise and publish its written statement of Investment Principles.

### **4. PROPOSAL TO INCREASE THE LIMIT ON INVESTMENTS**

- 4.1** I have sought the advice of Paul Potter, the Fund's Advisor on these issues and his response is as follows:

“In our view, the Committee should retain the increased limits available under Schedule 1 of the current LGPS (Management and Investment of Funds) Regulations relating to insurance contracts and partnership investments.

The 35% limit in relation to insurance contracts allows the Fund to have all of its passively managed assets with Blackrock rather than having to use two passive managers. Having the assets with one manager allows any rebalancing or asset transfers to be carried out in a more cost-effective manner.

The increased limits on partnership investments are beneficial in our view as they allow the Fund to improve the diversification of its growth assets. Currently, these limits relate to the target allocations to private equity (5%) and infrastructure (2.5%). However, partnership structures are also used for accessing other types of investment which may also be attractive to the Fund in future such

as private forms of debt or global property. These types of investment allow the Fund, as a long term investor, to benefit from the illiquidity premium.”

- 4.2** These limits would normally be reviewed by the Pensions Committee every three years as part of the SIP. However, the Regulations are likely to be changed in the next few months in order to allow the new ‘pooling environment’ to happen. It is expected that the specific limits will be removed and new regulations could come in as soon as 1 April next year.

## **5. REVISION OF THE STATEMENT OF INVESTMENT PRINCIPLES**

- 5.1** As indicated in paragraph 1 above a general review of the Statement of Investment Principles is due. This normally takes place following completion of the triennial actuarial valuation but due to the recent considerations regarding collaboration with other funds the review was postponed. The postponement was noted by the Wales Audit Office in their report following the annual audit of the Pension Fund accounts.

- 5.2** The review involves consultation with interested parties before the final Statement is adopted. The intention is to publish the revised SIP by March 2016.

- 5.3** In order to do this it is suggested that the preliminary review of the Statement of Investment Principles be produced by officers and that the draft is circulated to interested parties during November and December 2015.

- 5.4** If the Regulations are amended and the specific limits are removed before 1 April 2016 the SIP will be amended to reflect the changes before presentation to this committee.

- 5.5** The final version of the SIP following the consultation will be presented to the Pensions Committee in March 2016 for discussion and approval.

## **6. RECOMMENDATION**

- 6.1** I recommend that the Pensions Committee, having regard to the advice given in Section 4 above, and bearing in mind the diversification afforded, that the limit on the amount which can be invested in any one single insurance contract be kept at 35% and that the limits on all contributions to any single partnership be kept at 5% and all contributions to partnerships be kept at 15%.

**6.2** That the above limits should apply until such time as the decision is revoked by the Committee; and that the decision is reviewed by 31 March 2018.

**6.3** In order that this decision may take effect, that the Statement of Investment Principles notes that the following limit have been set:

Investment in any single insurance contract	35%
All contributions to any single partnership	5%
All contributions to partnerships	15%

and the revised statement will be published by 31 March 2016.

**6.4** The Committee is asked to agree on the way forward for the formal review of the Statement of Investment Principles.