

SOUTH YORKSHIRE PENSIONS AUTHORITY

JOINT LOCAL PENSION BOARD

16 March 2017

Investment Strategy Statement (ISS)

1. Purpose of the report

Attached are the Investment Strategy Statements (ISS) for the South Yorkshire Pension Fund and the South Yorkshire Passenger Transport Pension Fund. These are updated versions of the strategies previously outlined in a Statement of Investment Principles (SIP) which was subject to regular review. Pooling of investments has given rise to new regulations which require an ISS.

The ISS will be submitted to the Investment Board for approval on 9 March 2017; the ISS for the Passenger Transport Pension Fund will be submitted to Passenger Transport Fund Committee at its meeting on 27 March 2017.

2. Background information

2.1 Administering authorities are required to publish new Investment Strategy Statements by 1 April 2017 in accordance with the provisions of regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. This is a development on the past practice of producing a Statement of Investment Principles (SIP), last done in September 2016, pending the Actuarial Valuation and the receipt of the new regulatory requirements.

2.2 Statutory background

Regulation 7(1) requires an administering authority to formulate an ISS which must be in accordance with guidance issued by the Secretary of State and must include:-

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also 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.

The statement must be published by 1 April 2017 and then kept under review and revised from time to time and at least every three years.

2.3 Directions by the Secretary of State

Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with the regulations. Where there is evidence to suggest that an authority is acting unreasonably, the Secretary of State can consider intervention, but only where this is justified and where the relevant parties have been consulted. This would include full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

- a) To require an administering authority to make changes to its investment strategy in a given timescale;
- b) To require an administering authority to invest assets as specified in the Direction;
- c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and
- d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including relevant reports from the actuary, from the scheme advisory board or from the local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

3. Investment Strategy Statement (ISS).

The proposed ISS is attached. It references the Authority's compliance with both the 'Myners' corporate governance principles and the Financial Reporting Council's (FRC's) UK Stewardship Code. The latter is reported elsewhere on this agenda. The 'Myners' principles have been reported previously and will be amended to reflect the Authority's response to adopting the Stewardship Code elsewhere on this agenda.

- 3.1 An administering authority also has a duty to prepare, maintain and review a separate Funding Strategy Statement (FSS) under the Local Government Pension Scheme Regulations 2013. The ISS should be read in conjunction with the FSS which will be reported to the Authority on 16 March 2017 as part of the report on the triennial Actuarial Valuation.
- 3.2 The ISS has been subject to consultation with the Fund's actuary, an external investment consultant, the Fund's three independent external advisors and the Chairman of the Local Pension Board.