



**Agenda Item**

<b>Subject</b>	<b>Investment Beliefs</b>	<b>Status</b>	For Publication
<b>Report to</b>	Authority	<b>Date</b>	12 September 2019
<b>Report of</b>	Head of Investment Strategy		
<b>Equality Impact Assessment</b>	Not Required	Attached	No
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**1 Purpose of the Report**

- 1.1 To secure approval for a statement of investment beliefs in order to support the process of reviewing the Investment Strategy.

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**2 Recommendations**

- 2.1 Members are recommended to:
- Approve the Statement of Investment Beliefs set out in this report.**
  - Note that the process of reviewing the Investment Strategy will provide an opportunity to test and if necessary revise this statement.**

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**3 Link to Corporate Objectives**

- 3.1 This report links to the delivery of the following corporate objectives:

**Investment Returns**

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

A Statement of Investment Beliefs provides the initial foundation within which the Authority's revised investment strategy will be developed.

**Responsible Investment**

To develop our investment options within the context of a sustainable and responsible investment strategy.

The Statement of Investment Beliefs needs to be constructed to give appropriate prominence and weight to the Authority's belief in the importance of responsible investment.

#### **4 Implications for the Corporate Risk Register**

- 4.1 The actions outlined in this report address the risks included in the Corporate Risk Register related to the strength and appropriateness of the Authority's Investment Strategy.

#### **5 Background and Options**

- 5.1 The review of the Authority's Investment Strategy is a key piece of work for both officers and members of the Authority over the course of this year. The investment world provides many options for achieving particular goals and officers supported by Hymans Robertson need to understand the parameters within which they are working in order to carry out the review of the strategy. For example it would be a waste of time and resource to look at delivering the strategy through passive management approaches if the Authority believes in active management. For this reason the starting point for reviews of Investment Strategy is often what is termed a Statement of Investment Beliefs. Such a statement allows officers to understand what approaches to delivery are likely to be acceptable.

- 5.2 Defining investment beliefs has formed part of previous strategy reviews but they have not previously been brought together in a single statement, approved by members, which summarises how the Authority goes about investment. The following is proposed as the initial statement of investment beliefs. This has been adapted from the Authority's previous work to reflect the reality of pooling. The highlighted words and phrases indicate key parts of the beliefs:

"SYPA is an **active, global, long term** investor and looks to maintain a **diversified** portfolio of assets managed through the Border to Coast Pensions Partnership in a **responsible** way which gives due regard to **Environmental, Social and Governance** issues aiming to achieve superior **net of fees risk adjusted returns**. The overall approach to risk can be summarised as **moderate**."

- 5.3 The beliefs are defined in more detail below:

##### **Active**

There are two broad styles of investment, active and passive. Active investment involves selecting specific investments based on a process of analysis, while passive investment involves buying all the stocks in an index in the same proportions as in the index, thus if Tesco is 5% of the index it will be 5% of the portfolio. SYPA has historically chosen to be an active investor because it believed that this style of investment generates superior returns over the long term, something the long term performance of the fund supports.

##### **Global**

Some investors restrict themselves to investment in their home market (in SYPA's case the UK). However, SYPA believes that it will be better able to harvest the benefits of growth in the world economy by investing on a global basis. This does not mean that we do not invest in the UK, like most LGPS funds we have more exposure to the UK

than would be justified solely based on the size of the UK economy in the context of the world economy.

### **Long Term**

The liabilities that the Fund is seeking to meet through its investments will not finally mature for another 60 or 70 years and therefore we need to look to the long term in terms of our investments rather than short term market movements. For this reason we look at 3 and 5 year performance more closely than 1 month and 3 month performance.

### **Diversified**

The old saying about not putting all your eggs in one basket applies as much to the investment world as to any other aspect of life. If we invested all the Fund in equities given that globally equity markets tend to move in parallel if markets fell the whole Fund's value would fall. By investing in a range of different asset classes which do not all move in the same direction at the same time (often called uncorrelated assets) we can reduce this sort of risk.

### **Responsible**

Essentially SYPA wants to be a "good owner of good companies" by which we mean companies that behave properly whether that be towards the workforce, in balancing shareholder interests, or towards the environment. Evidence shows that "good companies" of this sort tend to perform better and deliver better shareholder value in the long term.

### **Environmental, Social and Governance (ESG)**

These are the key factors which are addressed within responsible investment. Within the context of environmental issues climate change is a particular focus, while the Social dimension includes workforce issues which might include excessive pay or insecure work. Governance issues focuses on things like the construction and independence of boards, political donations and lobbying by companies.

### **Net of Fees Risk Adjusted Returns**

The amount of return we can expect to receive on an investment is very much driven by the degree of risk involved in that investment. Return can be seen as the value of the risk that we take in making a particular investment. Private equity investments are inherently riskier than property, therefore, our baseline assumption for returns from private equity will be higher than for property. In simple terms this is what we mean by risk adjusted return.

We look at all performance after we have paid fees to those managing money on our behalf. This makes us conscious of the costs of delivering a given level of return and the impact of costs on return. For example a product that tracks the index for a cost of 3bps will deliver performance of the index – 3bps, while a product delivering performance of the index plus 1% for a cost of 3bps will deliver performance of the index +97bps, thus delivering better value for the risk taken. In trying to select investments it is the second sort of product we are seeking.

## Moderate

The Authority's Investment Strategy has over many years sought to achieve the returns required to meet the Fund's liabilities without taking excessive risk, although accepting that we cannot take no risk. We have described this as a moderate attitude to risk, which is slightly less risky than the midpoint of a range running from putting all the money in the bank and putting it all into the most risky assets we can find. This is reflected in the type of investment mandates we award. So, in equities while we are an active investor the targets and limits we set for the manager result in a broad diversified portfolio as compared to higher risk (and higher potential return) portfolios which will hold a much smaller number of individual stocks.

- 5.4 Subject to agreement by members this Statement of Beliefs will provide a framework within which officers supported by Hymans Robertson will develop proposals to implement the revised strategic asset allocation that will be the key output from the Investment Strategy Review process. Members will have a further opportunity to debate these beliefs in the seminar on the Investment Strategy which will test out some of the potential implementation approaches, and allow an opportunity to refine the statement should that be necessary.

## 6 Implications

- 6.1 The proposals outlined in this report have the following implications:

Financial	Adopting the Statement of Investment Beliefs in and of itself has no financial consequences.
Human Resources	None
ICT	None
Legal	None
Procurement	None

**Sharon Smith**

**Head of Investment Strategy**

<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>