

Agenda Item

Subject	Investment Strategy Review and Updated Investment Strategy Statement	Status	For Publication
Report to	Authority	Date	16 th March 2023
Report of	Director and Assistant Director - Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

- 1.1 To receive the results of the review of the Investment Strategy following the 2022 Valuation of the Fund and approve their incorporation in a revised Investment Strategy Statement.
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2 Recommendations

- 2.1 Members are recommended to:
- a. **Note the work undertaken by Hymans Robertson to review the Strategic Asset Allocation.**
 - b. **Approve the proposed revised Strategic Asset Allocation.**
 - c. **Approve the revised Investment Strategy Statement at Appendix A incorporating the new Strategic Asset Allocation.**
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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.

Responsible Investment

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

Scheme Funding

To maintain a position of full funding (for the fund as a whole) combined with stable and affordable employer contributions on an ongoing basis.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report relate to the various risks posed to the value of the Fund's assets as a result of major market related movements and the financial resilience of the asset base as well as to the risks associated with the Fund's cashflow.

5 Background and Options

Strategy Review

- 5.1 Following each actuarial valuation, the Authority conducts a review of the investment strategy to ensure that it is still appropriate in the context of the overall funding position and the cashflow requirements of the Fund. The key output of any review is the Strategic Asset Allocation (how much of the Fund should be invested in each asset class) which is the key driver of investment performance. Conducting such reviews requires the use of complex financial and economic modelling techniques applying to both assets and liabilities and therefore consultants are used to carry out this detailed work steered by the Investment Advisory Panel made up of the Independent Advisers and officers.
- 5.2 This strategy review has been conducted in a different context for the Fund. Firstly, there is a significant surplus of assets over liabilities and secondly this is the first review since the Authority agreed its Net Zero goal which alongside the broader impact of Climate Change needs to be factored into consideration of the options available for changes in the Strategic Asset Allocation.
- 5.3 The detailed work on reviewing the Strategic Asset Allocation has been undertaken by Hymans Robertson, who were appointed after a mini competition using the LGPS national framework. David Walker the lead consultant on the project will be present to address the highlights of their findings which are set out for publication at Appendix A. The full report is at confidential Appendix B, this is confidential because it includes proprietary information and judgements about specific investments. Members have already received a presentation on this work as part of a recent seminar on the investment strategy. The key messages from this work are as follows:
- The current strategic asset allocation has a greater than 80% probability of maintaining full funding over 20 years.
 - Any of the options for changes in the strategic asset allocation identified also offer a greater than 80% probability of maintaining full funding over 20 years,
 - It is possible without materially impacting the probability of the strategy being successful to tilt the portfolio further towards climate positive investments in support of the Net Zero goal.

5.4 The table below presents the proposed changes to the Strategic Asset Allocation based on the work undertaken by Hymans Robertson.

Asset Allocation	Current Strategic Asset Allocation	Proposed Strategy	Comments
UK Equities	10.0	7.5	Given the strong funding position a reduction in equity allocations does not materially hinder the probability of success
Global Equities	35.0	30.5	
Private Equity	7.0	7.0	Maintain as key driver of growth but improve climate data quality
Multi Asset Credit	6.0	2.5	Reduced MAC allocation. From a net zero standpoint this mandate is relatively carbon intense and is least aligned to a net zero pathway
Private Debt	5.5	7.5	Increased private debt allocation given attractive risk adjusted returns but seek to improve climate data quality.
Infrastructure	10.0	9.0	Reduced infrastructure allocation to allow for investment in climate opportunities
Property	9.0	9.0	Maintain key income driver to help meet cashflows
Natural Capital	1.0	3.5	1% agriculture and 2.5% allocation to timber on the basis that this will build up over time. Timber is the most likely asset class to improve the net emissions position in 2030 along with attractive investment characteristics and wider sustainability features such as improved biodiversity and support to local communities.
Climate Opportunities		5.0	5% allocation to Climate Opportunities capacity permitting. The Climate Opps fund offers a diversified approach to accessing various climate solutions with both attractive investment profiles and significant potential to accelerate the net zero transition for the wider economy.
Renewable Energy		5.0	5% allocation to renewable energy in addition to the Climate Opps fund. Further investment into renewable energy could provide more investment opportunities abbd be tolerated with regard to the funding position and provide further reductions in the net emissions position in the future.
UK Index Linked Gilts	10.0	7.0	Analysis shows that due to the strong funding position of the Fund a reduction in protection assets will not materially affect the probability of success
Investment Grade Credit	5.0	5.0	Maintain allocation to corporate bonds. Potential green bonds solution being discussed with Border to Coast.
Cash	1.5	1.5	

5.5 The Place Based Impact Investment Allocation discussed elsewhere on the agenda for this meeting will, following discussion with the Independent Advisers, be delivered through earmarking a proportion of commitments in the Private Equity, Private Debt, Infrastructure and Property allocations. This will ensure that these investments are made to the same financial targets as the other investments within those asset classes.

The regular reporting to the Authority will separately identify this allocation for monitoring purposes.

Investment Strategy Statement

- 5.6 The LGPS Investment Regulations require that the Authority produce an Investment Strategy Statement (ISS) which sets out its overall approach to managing the investment assets for which it is responsible including the Strategic Asset Allocation. A revised ISS incorporating the recommendations of the Strategy Review is presented for approval at Appendix C.
- 5.7 In addition to the changes reflecting the results of the Strategy Review the ISS includes two other significant changes:
- An indication of openness to switching some fixed income holdings into a Green and Sustainable Bond product should one become available which meets the relevant risk / return criteria.
 - Information relating to the approach to “levelling up” or Place Based Impact Investment as presented in the Member Working Group report elsewhere on the agenda for this meeting. This is in anticipation of formal requirements being made in relation to this.
- 5.8 Other elements of the ISS refer to other aspects of the policy framework such as the Responsible Investment policy which are dealt with elsewhere on the agenda for this meeting.

6 Implications

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

Financial	The costs of the review work undertaken by Hymans Robertson have been met from the existing Investment Strategy budget.
Human Resources	Implementation of a significant strategic shift of this sort will require resources within the Authority to support its implementation. These have already been provided through the additional staffing resources approved last year.
ICT	None
Legal	None
Procurement	None

George Graham

Director

Sharon Smith

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Background Papers	
Document	Place of Inspection