

Agenda Item

Subject	Investment Process - Update	Status	For Publication
Report to	Local Pension Board	Date	9 th November 2023
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

- 1.1 To provide the Board with an update on the way in which the Authority's investment process operates.
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2 Recommendations

- 2.1 Members are recommended to:
- a. Note the contents of this report and consider whether there are any issues that they would wish to raise with the Authority.**
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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.

The effectiveness of the Authority's investment process is clearly key to the successful delivery of the overall mission of delivering an affordable and sustainable pension scheme.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report have implications for the various investment risks and the risks around the control environment included in the Corporate Risk Register.

5 Background and Options

- 5.1 The Board has asked for information on the way in which the Authority's investment process works to gain assurance over this aspect of the organisation's operation. This report provides a brief overview of the process.
- 5.2 The investment process starts with the investment strategy which determines what proportion of the Fund's assets should be allocated to each asset class (equities, bonds etc.) to give the best probability of sustainably achieving the required return to deliver or maintain full funding. This process requires the use of complex modelling using several thousand scenarios to deliver a robust analysis. Given the complexity of this work the Investment Advisory Panel (the Director, Assistant Director – Investment Strategy and Independent Advisers) are assisted by an investment consultant. The Strategy is reviewed every three years taking account of the results of the actuarial valuation and Border to Coast are engaged in the process to ensure that the proposed strategic asset allocation is capable of being delivered through the products available from the pool.
- 5.3 Once the Strategic Asset Allocation is set the Authority's Investment Strategy Team are responsible for implementing it. This will involve:
- Allocating the right amounts to each of the Border to Coast products and determining the appropriate level of commitments to each of the Alternatives products (Private Debt, Private Equity Infrastructure, Climate Opportunities, UK Opportunities) to ensure that these asset classes are maintained at the appropriate level within the Fund. This includes identifying the levels of income required to meet benefits each quarter and also whether commitments are to be made through the pool or in a small number of cases through direct investment (for example as part of the Place Based Impact strategy).
 - Where market movements result in the value of an individual allocation (for example equities) moving outside of the agreed range within the Strategic Asset Allocation undertaking "rebalancing" which involves selling assets which are overweight relative to the Strategic Asset Allocation and buying those which are underweight. This is only really practical for listed assets such as equities and bonds which are liquid, illiquid assets such as property and alternatives are more difficult to rebalance particularly when they are overweight relative to their benchmark.
 - For the relatively small number of investments which are not made through the Pool conducting limited market surveys and due diligence to identify particular products which might be invested in. So a member of the investment team might research a range of specialist housing funds (identified through approaches to the Authority, ongoing discussion with fund managers and discussion with other LGPS Funds) which might meet the Authority's requirements in this area. From a high-level review discussion with the Director or Assistant Director – Investment Strategy will identify a smaller number of funds for detailed consideration. This results in a detailed due diligence paper which examines the specifics of each fund being considered including the nature of the investment opportunity and associated risks, the strength of the team and their track record and the approach to ESG issues. This is then reviewed and challenged by the Director or Assistant Director – Investment Strategy and a decision made as to whether or not to invest,

- 5.4 Once any investment has been made its performance needs to be monitored through an oversight process. This process differs between investments made through Border to Coast and those made directly or in the various legacy portfolios. This reflects the fact that so much of the Fund is invested in Border to Coast products and also the fact that with the exception of the commercial property portfolio the other legacy investments are individually relatively small in the context of the whole portfolio.
- 5.5 For investments made through Border to Coast the process is more structured and has recently been developed further to provide a more robust record of the process and any action taken. Border to Coast provide monthly factsheets for each ACS sub fund as well as more detailed quarterly reports which also include ESG reports for individual sub funds. In addition each quarter a number investor calls are held and portfolio managers responsible for individual sub funds make detailed presentations on the performance of the individual sub funds and the alternatives programme. These calls are open to officers and independent advisers and are attended by members of the investment team. The recently added element to this process is the addition of a standardised quarterly review of the performance of each fund against a range of characteristics (such as whether it is performing in line with the agreed risk tolerance). This will be reported in traffic light form and will go through a challenge process within the investment strategy team prior to sharing with the Independent advisers and being discussed at the regular meetings of the Investment Advisory Panel. The accumulated knowledge generated is fed into the annual review discussion which takes place between the Panel and Border to Coast each June and which results in the report which is considered in the confidential section of today's agenda.
- 5.6 For other investments except for the commercial property portfolio where a quarterly review meeting between the fund manager and the Authority takes place a lighter touch is used reflecting the sheer number (around 150) of individual investments. The focus is very much on investments in their investment and management phases and less on those in the realisation phase. In general the process is conducted through review of managers' quarterly reports with follow up with the manager if any issues are apparent. Where possible annual investor meetings will be attended but given the number of funds this is in a minority of cases and the focus is always on the larger investments. In general the Authority does not take up seats on fund advisory committees which tend to be available for larger investors, although we have recently done so for a renewable energy fund where both SYPA and Border to Coast are investing with the Fund Manager so there is a wider benefit to the Partnership from this. The results of this work are fed into the regular investment reports to the Authority and if there are particular issues with an individual fund it would be discussed at an Investment Advisory Panel meeting as the two independent advisers have a depth of knowledge of private markets which can be helpful in understanding how to deal with any issues which are beyond the experience of the team.
- 5.7 The overall investment process has evolved since the institution of pooling in 2018 and continues to do so. The work currently being undertaken is designed to make sure that the process is robust and less dependent on any single individual in what is a very small team and the Board are invited to comment on the process.

6 Implications

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

Financial	None directly
Human Resources	None
ICT	None
Legal	None
Procurement	None

George Graham

Director

Background Papers	
Document	Place of Inspection