

Pension Fund Committee

Meeting to be held on Friday, 16 June 2023

Electoral Division affected:
(All Divisions);

Investment Strategy Statement

(Appendices 'A','B','C', 'D' and 'E' refer)

Contact for further information:

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Brief Summary

Under regulations it is necessary to review the Investment Strategy Statement (ISS) every 3 years. Ahead of reaching the end of the valuation process, a review of the ISS was commenced. As part of this review, a review of the Strategic Asset Allocation of the Lancashire County Pension Fund has been undertaken.

This paper provides an update on the outcome of this review activity and presents an updated version of the ISS document, as well as a key risk document (referred to as Risk Appetite Statement).

Recommendation

The Committee is asked to:

1. Consider the update of the review of the Investment Strategy Statement as detailed in this report and associated appendices.
2. Approve the recommendations from the Investment Panel as set out in Appendix 'B'.
3. Approve the updated Investment Strategy Statement set out at Appendix 'D'; and
4. Approve the updated Risk Appetite Statement attached as Appendix 'E'.

Detail

Introduction

The 2022 actuarial valuation of the Lancashire County Pension Fund (LCPF) culminated in the valuation report published at the end of March 2023 and Funding Strategy Statement. As the final funding position, discount rates and contributions were agreed, it was important to consider the link to investment strategy.



Accordingly, there has been a review of the Strategic Asset Allocation (SSA) of LCPF and the outcomes of this are documented within the updated Investment Strategy Statement (ISS).

A workshop was held on 22nd May 2023 to provide a full briefing to members of the Committee ahead of their consideration of the report at this meeting.

Regulatory requirements

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Administering Authority 'must, after taking proper advice', formulate an investment strategy which must be in accordance with guidance issued'. A review of the strategy must take place 'from time to time, and at least every 3 years'.

Under regulations and guidance, it is confirmed that the ISS 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.

It 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.

Roles and responsibilities

These are documented within the ISS and key points to note are:

- **Pension Fund Committee** – under the constitution of the County Council, the Committee is required to determine asset allocation policy and approve/review on a regular basis an overall Investment Strategy;
- **Investment Panel** - under the constitution, the Panel is required to review long-term investment strategy and make recommendations to the Committee as well as advise on strategic asset allocations proposed by LPPI; and



- **Local Pensions Partnership Investment Limited (LPPI)** – is required to provide advice to LCPF usually via the Investment Panel. As part of this project, an advice note has been provided (see Strategic asset allocation below).

Strategic asset allocation and review process

One of the key decisions that must be made when managing LCPF is the asset allocation strategy, which determines how the assets of LCPF will be invested across different asset classes. This is a key aspect of the ISS document detailed within the Asset Allocation Framework section of the ISS.

A three-stage approach was taken in this review as follows:

- 1) Advice from LPPI;
- 2) Advice and recommendations from the Investment Panel; and
- 3) Updated ISS document.

As an initial step in the review, an advice note was produced by LPPI on this matter, extracts from which are included for information in **Appendix 'A'**. Key aspects of the note included:

- Review of investment objectives and risk;
- Economic backdrop;
- Proposed SAA;
- Alternative SAAs;
- Scenario analysis.

This advice note was discussed at Investment Panel meetings on 3rd March 2023 and 3rd April 2023 which allowed the Independent Investment Advisers and Head of Fund to consider the note in detail and discuss it with LPPI representatives. Minutes of these meetings are provided in Part II the agenda.

As a subsequent step, an overlaying advice document was produced by the Independent Investment Advisers and a copy of this is provided in **Appendix 'B'**. This document outlines the recommendations made by the Investment Panel to the Committee.

Summary recommendations

Key changes recommended to the Strategic Asset Allocation are detailed in the table below. In approving the revised ISS, the Committee will be approving the strategic changes detailed below.



Asset Class	Capital Market Assumption	Strategic Asset Allocation			
		Current	LPPI Proposed SAA		
Global Equities	6.8%	45.5%	45%	↓ 0.5%	40% - 52.5%
Private Equity	7.4%	5.0%	5%		0% - 10%
Fixed Income	4.2%	1.5%	5%	↑ 3.5%	0% - 10%
Credit	5.7%	18.0%	18%		12.5% - 22.5%
Infrastructure	5.3%	16.0%	15%	↓ 1.0%	10% - 20%
Real Estate	4.9%	12.5%	11%	↓ 1.5%	6% - 16%
Diversifying Strat.	5.3%	---	---		0% - 5%
Cash	2.8%	1.5%	1%	↓ 0.5%	0% - 5%
Total		100%	100%		

Information supporting these recommendations (including rationale) is outlined in Appendices 'A' and 'B' referenced above.

Investment Strategy Statement

A final step has been to revise the ISS to reflect the recommendations on the Strategic Asset Allocation' as well as other updates. The current ISS is attached as **Appendix 'C'** for information, with the revised ISS at **Appendix 'D'**. Some minor changes have been made to the document to simplify and/or improve presentation. However, other changes made are more substantive. In the updated ISS the substantive changes are highlighted in yellow for ease of reference. A summary of substantive changes is as follows:

- **Investment objectives** - expanded to cover stability of employer contributions;
- **Economic landscape** - additional content identifying relevant macroeconomic factors;
- **Strategic Asset Allocation** – table updated as per changes detailed in Summary table above;
- **Risk management** - content updated to align with the risk register;
- **Investment beliefs** - have been inserted. These were agreed by the Committee in March 2022; and
- **Roles and responsibilities** - have been clarified and incorporated into an appendix within the ISS.

Next steps

If approved, the revised ISS (Appendix 'D') will take effect from 1st July 2023. Future investment related reporting to the Committee will reflect the changes.

However, changes to the SAA usually take time to put in place and, as these changes are implemented, this will be noted in regular reporting to the Committee, as well as the Investment Panel.



Risk appetite

The Risk Appetite Statement is a risk management tool to ensure that risk tolerance around investment strategy is adequately defined and monitored on an ongoing basis. This has been updated and a copy is enclosed at **Appendix 'E'**.

Appendices

Appendices 'A' – 'E' are attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

Appendix	Title
Appendix 'A'	An extract of an advice report produced by LPPI on 'Triennial Review of Strategic Asset Allocation'. This extract documents the analysis undertaken by LPPI and their recommended Strategic Asset Allocation approach. It also provides broader information and analysis to support their recommendation.
Appendix 'B'	Overlaying advice document produced by the Independent Investment Advisers entitled ' Strategic Asset Allocation 2023'. This note documents the recommendations of the Independent Investment Advisers to the Pension Fund Committee.
Appendix 'C'	Investment Strategy Statement – Updated in June 2021
Appendix 'D'	Investment Strategy Statement – Updated in June 2023
Appendix 'E'	Risk Appetite Statement. This document outlines objectives regarding funding level, total contributions, asset allocation and liquidity, as well as the monitoring framework for each of these items.

Consultations

Independent Investment Advisers
Local Pensions Partnership Investment Limited

Implications:

This item has the following implications, as indicated:

Risk management

Inappropriate investment strategy can lead to volatility and underperformance vs the Fund's investment objectives. The portfolio could fail to deliver the required return within risk tolerances. The role of the Pension Fund Committee determine asset allocation policy and consider expert professional advice provided by the Investment Panel in relation to investment strategy. The information and insight provided as part of this paper supports the Committee in fulfilling its role.



Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate
N/A

