

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 25 MARCH 2019**

**REPORT ON: STATEMENT OF INVESTMENT PRINCIPLES REVIEW**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 130-2019**

**1 PURPOSE OF REPORT**

This report reviews Statements of Investment Principles for Tayside Pension Fund.

**2 RECOMMENDATIONS**

The Sub-Committee are asked to note the information within the report and to approve the Statements of Investment Principles.

**3 FINANCIAL IMPLICATIONS**

There are no financial implications.

**4 INTRODUCTION**

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 required administering authorities to prepare, maintain and publish a written Statement of Investment Principles (SIP). This written statement has been approved by the Pension Sub-Committee annually since 2000 for Tayside Pension Fund.

These regulations have been replaced by the Local Government Pension Scheme Management and Investment of Funds (Scotland) Regulations 2010 and further amended by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 2016. The requirements for a Statement of Investment Principles are broadly similar but Regulation 12 (3) now requires funds to state the extent to which they comply with guidance given by the Scottish Ministers.

The Scottish Ministers guidance refers to the six revised principles on investment decision making contained within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009). A revised Statement of Investment Principles (Article IV of the minutes of the Superannuation Sub-Committee of the Policy and Resources Committee meeting of the 15 November 2010, Report No 676-2010 refers) review application in accordance with the Myners Principles, with a further revision (Article II of the minutes of the Superannuation Sub-Committee of the Policy and Resources Committee meeting of 27 February 2012, Report No 104-2012 refers).

**5 POLICY IMPLICATIONS**

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. The Fund's policy on Environmental, Social and Corporate Governance requires its investment managers to engage with companies on Sustainability and the Environment and Employee Care and Human Rights.

**6 CONSULTATION**

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

**7 BACKGROUND PAPERS**

None

**GREGORY COLGAN  
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**30 AUGUST 2019**



## **STATEMENT OF INVESTMENT PRINCIPLES**

### **1 INTRODUCTION**

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles. A Statement of Investment Principles should cover the policy on:

- The types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of the rights (including voting rights) attaching to investments
- Stock lending
- The extent of compliance with the six principles of investment practice set out in CIPFA publication "Investment Decision Making and Disclosure in Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

### **2 ADMINISTRATION AND GOVERNANCE**

Tayside Pension Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. Investment policy and decisions are delegated to the Pension Sub-Committee of the Policy and Resources Committee which comprises 6 elected members from Dundee City Council. The Pension Board, comprising of 4 employer representatives (external to the administering authority) and 4 trade union representatives (representing all types of members) assist the Sub-Committee with securing compliance to the regulations.

Investment decisions are made based on advice from Council Officers and professional external advisers. The Sub-Committee and Pension Board meet quarterly.

### **3 INVESTMENT ROLES AND RESPONSIBILITIES**

The full remit of the Sub-Committee is shown at Appendix A.

### **4 OBJECTIVE OF THE FUND**

The primary objective of the Tayside Pension Fund is to provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefits basis. There is limited discretion to vary these benefits.

The investment principles of the Fund have been set to ensure that the Fund meets its objective. This document outlines the investment principles governing the investment policy of the Fund.

### **5 INVESTMENT STRUCTURE, STRATEGY & OBJECTIVES**

The Fund's investment policy will be directed to achieving and maintaining a fully funded scheme and where practical, a stable employers contribution rate. There is also a requirement to maintain sufficient cash to meet liabilities as they fall due for payment. The Fund uses a Statement of Investment Beliefs which has been designed to support the Fund in underpinning the investment decision making processes and also as a reference point for understanding why investment decisions have been, and are, made.

The latest actuarial valuation of the Fund is shown in Appendix B.

The investment objective is to maximise the overall return whilst maintaining a prudent and balanced investment exposure. To achieve its investment objectives, the Fund will utilise the following different types of investments:

Equities, Managed Funds, Unit Trusts, Partnerships, Investment Trusts, Open Ended Investment Companies, Bonds, Underwriting, Property, Stock Lending, Direct Lending, Cash, Commission Recapture and Currency. Derivatives may be used, but only for efficient portfolio management or the reduction of risk. All investments and investment limits will comply with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

## **6 INVESTMENT MANAGERS**

The Fund will employ Investment Managers who are judged most suitable to manage the assets of the Fund. The Fund currently employs a range of managers that have been chosen in light of the overall investment strategy and have benchmarks and targets set to provide a prudent and balanced investment exposure to an acceptable level of investment risk.

The asset allocation, structure, manager mix and investment objectives are detailed in appendix C. These objectives and targets have been set to ensure a prudent and balanced investment exposure, which helps control the level of investment risk. These are currently in transition following a review of investment strategy (Article XIII of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee and Pension Board of 3<sup>rd</sup> December 2018, Report No 393-2018 refers). Appendix C details both the current and recently agreed strategies.

The performance of these managers is monitored on a quarterly basis.

## **7 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS**

A target has been agreed with each Manager which gives the Manager the balance between different types of investments. These provide an efficient balance between risk and return.

The Investment Managers are given full discretion over the choice of individual stocks within agreed parameters and are expected to maintain a diversified portfolio.

## **8 RISK**

In order to achieve its investment objective the Fund takes investment risk including equity risk, active management and illiquidity risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that objectives will not be met.

The Fund will seek to control risk through proper diversification of investments and Investment Managers. The tracking error of each manager's portfolio is reported to the Sub-Committee quarterly.

The initial risk register (Article III of the Minute of Meeting of the Superannuation Sub-Committee of the Policy and Resources Committee of 21 February 2011, Report No 114-2011 refers) sets the framework for the Fund's acknowledgement of, and appetite for risk. The risk register is reviewed and updated quarterly. Article IV of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee and Pension Board of 3<sup>rd</sup> December 2018, Report No 383-2018 details the most recent risk register.

## **9 EXPECTED RETURN**

Investment Managers will be held accountable for their performance through a regime of performance measurement against targets.

The Benchmark and performance target set for each Manager are intended to ensure that the total fund investment returns achieved are in excess of that assumed in the Actuarial Valuation.

## 10 REALISATION OF ASSETS

The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy. The Managers may determine whether or not to sell particular investments and which investments to sell to raise cash as and when required for meeting cash requirements notified to the Manager.

## 11 ADVISERS

Investment Consultant	KPMG LLP
Corporate Governance	Pensions Investment Research Consultants Ltd (PIRC)
Actuarial	Barnett Waddingham

## 12 PERFORMANCE MEASUREMENT

Quarterly and Annual performance figures are provided by Northern Trust and considered by the Sub-Committee.

## 13 CUSTODIAN

Northern Trust is the sole custodian for the Fund's assets.

## 14 AUDITORS

Audit Scotland.

## 15 ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Whilst recognising its over-riding fiduciary duties the fund will continue to encourage its managers to engage on issues with companies in which it holds investment. The managers will be instructed to summarise this engagement activity in their quarterly Investment Reports. The key areas will continue to be Employee Care, Human Rights, Sustainability and the Environment. Review of Approach to Socially Responsible Investing (Article V of the Minute of the Joint Meeting of the Pension Sub-Committee of the Policy and Resources Committee and The Pension Board of 4<sup>th</sup> June 2018, Report No 194-2018 refers) shows the current Policy on Environmental, Social and Corporate Governance.

In addition the fund believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios through time. So, where it is consistent with its fiduciary duty, the Fund would follow the principles below:

Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.

Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights and the engagement activity of managers.

Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment manager engagement.

Report on activities and progress. A six-monthly report will continue to be prepared for the Sub-Committee.

## 16 CORPORATE GOVERNANCE

The Fund will vote through its Fund Managers on all global security holdings in accordance with the recommendations of its voting consultants. Managers will be advised to use its best endeavours to vote in accordance with its voting guidelines.

## 17 CLASS ACTIONS

Both the fund and its custodian monitor class actions in relation to any investments it has held. It will participate in these where any additional benefit can be achieved.

18 **COMPLIANCE**

The Pension Sub-Committee will take advice on general investment matters from the Executive Director of Corporate Services and external advisers as appropriate. The Pension Board will assist in securing compliance to regulations.

The Pension Investment Sub-Committee will review this Statement annually or sooner if there is a change in policy in any of the areas covered.

19 **SCOTTISH MINISTERS' GUIDANCE**

The Fund adheres to the six principles within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

**INVESTMENT ROLES AND RESPONSIBILITIES****1. Introduction**

The Fund pursues a policy of seeking enhanced returns whilst lowering risk through diversification of both investments and investment managers. In order to achieve this it has delegated day to day investment decisions to a number of external investment managers. A management agreement is in place for each Investment Manager, which sets out the relevant benchmark, performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

**2. Tayside Pension Fund Sub-Committee is responsible for:**

- Setting the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.
- Appointing, reviewing, and assessing the performance of investment managers, investment consultants, custodians and actuaries.
- Ensuring appropriate arrangements are in place for the administration of benefits.
- Ensure appropriate additional voluntary contributions arrangements are in place.
- Ensure adequate audit arrangements are in place.
- Prepare, maintain and publish the following:
  - Governance Compliance Statement.
  - Funding Strategy Statement.
  - Statement of Investment Principles.
  - Environmental, Social and Corporate Governance Policy.
  - Administration Strategy
  - Communications Policy
  - Treasury Policy and Strategy

**3. Tayside Pension Fund Pension Board is responsible for:**

- to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator in such other matters as the LGPS regulations may specify
- to secure the effective and efficient governance and administration of Tayside Pension Fund

**4. The Executive Director of Corporate Services is responsible for:**

- governance of the Fund
- implementation of Committee decisions
- committee training

**5. The Investment Consultant is responsible for:**

- advice on setting investment objectives and strategy
- advice on appropriate investment management structures
- advice on asset classes and investment vehicles
- assistance with investment manager monitoring
- assistance with investment manager selection, retention and termination
- benchmark advice
- advising on the appropriate content of Investment Management and other related agreements.

**6. The Investment Managers are responsible for:**

- portfolio management including individual decisions on purchase retention and sale of investments
- decisions on corporate actions and corporate governance (proxy voting)
- responsible investment activity including analysis and engagement with companies.

**7. The Global Custodian is responsible for:**

- safekeeping of assets
- servicing of assets including income collection
- execution of transactions, corporate actions and proxy voting
- record keeping and primary accounting
- securities lending (if authorised)
- cash management
- performance measurement

**8. The Actuary is responsible for:**

- measurement, monitoring, advice and information relating to the Fund's liabilities and the relationship between its investment assets and liabilities.

**TAYSIDE MAIN FUND - SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2017**

	<u>£m</u>	<u>£m</u>
<b><u>Assets</u></b>		3,162.4
<b><u>Past Service Liabilities</u></b>		
Active Members	1,380.8	
Deferred Pensioners	370.8	
Pensioners	<u>1,198.1</u>	
Value of Scheme Liabilities		<u>2,949.7</u>
Surplus		<u>212.7</u>
Funding Level (excluding 10% volatility reserve)		<u>107%</u>
		<b><u>Employers Contributions</u></b>
		<b><u>(% of Payroll)</u></b>
Primary Future Service Funding Rate	21.5	
Monetary Adjustment	4.5	
Total		<u>17.0</u>



**APPENDIX C**

<b>Tayside Main Fund - Target Future Asset Allocation</b>		
<b>Asset Class</b>	<b>Current Allocation</b>	<b>Agreed Allocation</b>
Equities	70%	65%
Fixed Income	18%	13%
Property	12%	12%
Local and Alternative Opportunities	0%	10%

**Main fund - Benchmarks  
(effective from 1 April 2017)**

<b>EQUITIES</b>	<b>FIXED INCOME</b>	<b>PROPERTY</b>
80% MSCI AW Index	65% Libor + 5%	100% IPD All Balanced Property Funds Weighted Average Index
20% FTSE All Share Index	20% ML Sterling Non-Gilts Index	
	15% FTSE Index-Linked Over 5yr Index	

Revised benchmarks for individual mandates are currently being developed as required

<b>Manager</b>	<b>Asset Class</b>	<b>Weighting</b>	<b>Current Benchmark</b>	<b>Performance Target (3yr rolling)</b>
Fidelity	Global Equities (active)	21%	100% MSCI AC World Index	+ 1.5% pa (gross of fees)
Baillie Gifford Global Alpha	Global Equities (active)	12%	100% MSCI AC World Index	+ 1.75 to 2% pa (net of fees)
Baillie Gifford UK	UK Equities (active)	12%	100% FTSE All Share Index	+ 1.75 to 2% pa (net of fees)
Alliance Bernstein	Global Equities (active)	15%	25% FTSE All Share Index 41% FTSE AW Developed North America Index 16% FTSE AW Developed Europe (Ex UK) Index 8% FTSE Japan Index 3% FTSE AW Developed Asia Pacific Ex Japan Index 7% FTSE AW Emerging Markets Index	+ 1.5 to 2% pa (net of fees)
LGIM	Global Equities (passive)	10%	100% FTSE AW Index	+/- 0.5% p.a. (for 2 years out of 3)
GSAM	Fixed Income (UK)	9%	Yield to maturity of 3%	+ 1.25% pa (gross of fees)
Fidelity	Fixed Income (UK)	9%	72% ML Sterling Non-Gilts Index 28% FTSE Index-Linked Over 5 Year Index	+ 0.75% pa (gross of fees)
Schroders	Property (UK)	12%	100% IPD All Balanced Property Funds Weighted Average Index	+ 0.75% pa
GSAM	Real Estate Credit	<1%	UK CPI + 9%	
M&G	Financing Fund	<1%	100% ML Sterling 3-Month LIBOR Index	
Northern Trust	Securities Lending	Circa 70%	N/A	0.026% pa