

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

REPORT ON: TAYSIDE PENSION FUND STATEMENT OF INVESTMENT BELIEFS

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 128-2019

1 PURPOSE OF REPORT

This report presents Tayside Pension Fund's Statement of Investment Beliefs which will be subject to review in line with Investment and Funding and policies.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the information within the report and to approve the Statement of Investment Beliefs.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 BACKGROUND

Tayside Pension Fund has developed a Statement of Investment Beliefs to ensure that investment strategies employed by the Fund remains consistent with their investment beliefs.

This Statement of Investment Beliefs has been designed to support the Fund in underpinning the investment decision-making process for the future, and also as a reference point for understanding why investment decisions have been, and are, made.

The Statement of Investment Beliefs should be viewed in conjunction with the Fund's Statement of Investment Principles, Funding Strategy Statement and Environmental, Social and Governance ("ESG") Policy.

The statement will be reviewed periodically to ensure that it remains both in-line with the documents noted above and with the Fund's overall objectives, which are set out in the Fund's Funding Strategy Statement, which are noted below as:

- To maximise investment income within reasonable risk parameters so as to ensure that sufficient resources are available to manage liabilities effectively, and that all liabilities are met as they fall due; and,
- Build up the required assets in such a way that employer contributions remain stable in the short term and at reasonable cost to the Fund's Employers and to the taxpayers over the longer term.

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.

There are no major issues, other than Risk Management itself, which is addressed through the risk register.

6 CONSULTATIONS

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

7 **BACKGROUND PAPERS**

None

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EXECUTIVE DIRECTOR OF CORPORATE SERVICES

30 AUGUST 2019

STATEMENT OF INVESTMENT BELIEFS

There is a fundamental link between funding level and investment strategy:

Tayside Pension Fund exists in order to pay members pension benefits as they fall due, and in order to determine an appropriate investment strategy to meet the level of return required. The Fund thus believe that this fundamental link between funding and investment is crucial, and actuarial input is essential when setting investment strategy.

Clearly defined investment objectives are important for success:

Tayside Pension Fund appreciate the need to generate a sufficient level of investment return to meet objectives. However, the Fund also recognises that there are a number of potential investment risks that need to be understood and managed in order to provide an appropriate level of certainty and to ensure there is sufficient capital and liquidity to pay the Fund members' benefits as they fall due. The fund believe that clearly defined investment objectives is key in providing focus in implementing their investment strategy, and in doing so, assisting the Fund meet its long-term goals.

Investment strategy has a relatively long term horizon in line with the Fund's liability profile:

The Fund has a very long investment time horizon as a result of the Fund's liability profile. The Fund believe in applying long term thinking in order to seek and deliver long term sustainable returns, and in this, the Fund may justifiably hold some investments over many years in the beliefs that longer term investments have historically proven to generate more wealth than short term investments; and that investors are rewarded for holding certain illiquid assets and are therefore willing to have an allocation to such assets to take advantage of this illiquidity premium and comfortable, and as a result, the Sub-Committee are comfortable holding an allocation to these less liquid assets as part of a suitably diverse investment portfolio.

Whilst the Fund monitor and manage short term investment performance, the prime focus is on longer term investment horizons of up to 10 years and the investment performance over this longer period, in line with the Fund's long term investment beliefs.

Strategic Asset allocation is the primary investment decision:

Tayside Pension Fund believe that strategic asset allocation is the greatest driver of returns for the Fund and therefore understand that asset allocation is the most important investment decision. Manager and stock selection and portfolio monitoring are highly important but of second order to the strategic asset allocation decision in delivering value for money for all of the stakeholders in the Fund.

Diversification is important for managing risk and also results in more stable investment returns:

Tayside Pension Fund believe that diversification across differing classes of assets reduces the volatility of returns and results in a better long-term risk adjusted return, which is to the benefit of all of the stakeholders in the Fund. As a result, the Fund invests across a broad range of asset classes (including, but not limited to equities, bonds, property, as well as less liquid opportunistic investments, as appropriate) and appoints a number of asset managers to reduce manager specific risks.

Risks should be appropriate, and be managed:

Tayside Pension Fund acknowledge that in order to achieve the required level of returns required to support the affordability and sustainability of the fund that a certain level of investment risk is unavoidable, however this risk must be not be unnecessary, but be appropriate and in-line with long term investment objectives.

Equities are expected to generate strong investment returns over the long term:

Tayside Pension Fund believe that over the long-term equities will deliver strong investment returns, and as a result the Fund retains a meaningful allocation to equities. The Fund believe that equities will drive total Fund performance and are therefore comfortable holding a material allocation to equities to help drive growth to meet benefit payments.

Active investment management can add value after fees and other costs:

Tayside Pension Fund believe that, in certain asset classes, such as equities, carefully selected investment managers can add value, after fees and other costs, through active management. Because of this belief, the majority of the Fund's assets are actively managed. The Fund acknowledge that consistent outperformance is difficult to achieve and therefore dedicate time and effort in selecting and monitoring the performance of their asset managers. The Fund also appoints an investment advisor to provide assistance and guidance.

Fees and costs should be minimised wherever possible:

Tayside Pension Fund believe that fees and costs should be minimised wherever possible as they reduce overall investment returns. Fees and other costs are regularly reviewed and renegotiated (as appropriate) to ensure optimal value for money and avoidance of unnecessary costs. The Fund evaluate investment performance net of fees and will only appoint an active manager who they believe can outperform net of fees. The Fund regularly engages with investment managers and undertakes procurement exercises to achieve the most competitive fees on behalf of the Fund.

It is important to invest responsibly:

Tayside Pension Fund believe that managers should invest responsibly, incorporating all environmental, social and governance (ESG) factors which could not only have material financial effect on the Fund in terms of fund and its reputation. To ensure incorporation of ESG into investment decision making, the Fund require that all investment managers to be signatories to the United Nations Principals of Responsible Investment. The Fund has an ESG policy which is regularly reviewed, and which outlines a specific provision for the Fund's long term ambition to completely divest from tobacco stocks, and the Sub-Committee expect the Fund's investment managers to adhere to this approach.

Responsible Stewardship and active engagement with companies is more effective in seeking to initiate change rather than divesting:

Tayside Pension Fund is supportive of encouraging positive ESG practices within the companies that it invests in. The Fund tasks their investment managers to engage with companies to encourage positive ESG practices, and to report to the Fund on their engagement in relation to the following key areas of concern:

- Employee Care,
- Human Rights,
- Sustainability and the Environment.

The Fund use an independent voting advisory service, and as part of ongoing monitoring, the Fund requires the investment managers to report on their voting activity, as this reflects the Fund's commitment to encouraging best practice.

Governance and decision making is critical to success and should focus should be on the areas of greatest importance:

Tayside Pension Fund seeks to avoid unnecessary complexity, where possible, to reduce costs, free up time and resources, and promotes focus on strategic decision making, such as asset allocation, where the greatest value is expected to be added. Complexity is only introduced to the investment structure where it is clear that it is expected to add value net of cost.