

**Report for:** Pensions Committee and Board 20 January 2020

**Title:** Fund Investment Strategy Review

**Report authorised by:** Jon Warlow, Director of Finance (S151 Officer)

**Lead Officer:** Thomas Skeen, Head of Pensions, Treasury & Chief Accountant  
[thomas.skeen@haringey.gov.uk](mailto:thomas.skeen@haringey.gov.uk) 020 8489 1341

**Ward(s) affected:** N/A

**Report for Key/**

**Non Key Decision:** Non Key decision

## **1. Describe the issue under consideration**

- 1.1. To note information regarding a review of the Fund's Investment Strategy following the completion of the 2019 triennial valuation of the Fund, and to agree a change to the Fund's Index Linked Gilts portfolio.

## **2. Cabinet Member Introduction**

- 2.1. Not applicable.

## **3. Recommendations**

- 3.1. That the Committee and Board note the information provided regarding the review of the Fund's Investment Strategy, including any further verbal updates provided by Officers, the Independent Advisor or Investment Consultant in the meeting.
- 3.2. That the Committee and Board approve a change to the Fund's current Investment Strategy, to switch its current Index Linked Gilts portfolio to a Fixed Gilts portfolio.
- 3.3. That the Committee and Board delegate authority to the Head of Pensions, Treasury and Chief Accountant to take all steps necessary to effect this change, including updating the Fund's Investment Strategy Statement.

## **4. Reason for Decision**

- 4.1. The Council is required by law to undertake an actuarial valuation of the Fund's assets and liabilities, currently every three years. It is usual practice to review the Fund's Investment Strategy following the completion of the valuation.

## **5. Other options considered**

5.1. None

## **6. Background information**

- 6.1. In preparation for the review of the Fund's Investment Strategy, officers of the fund arranged for the Investment Consultant to meet with the Fund Actuary to thoroughly discuss all the assumptions used in the 2019 Valuation.
- 6.2. Following on from this, the Head of Pensions, Independent Advisor, Chair of the Pensions Committee and Board met with the Investment Consultant in December 2019 to discuss initial ideas, themes and points to review before work on the strategy review began in earnest.
- 6.3. From this meeting, three key topics or themes emerged as being key areas for review:
- Cashflow management
  - Responsible Investment
  - Risk Management
- 6.4. The first of these points, cashflow management is of particular importance in this investment review: the fund pays increasingly more out each year in pension benefits than it collects from employer and employee contributions: investing in asset classes which provide a steady income stream means this income can be used to make up the difference, and the Fund avoids having to sell investments to pay pension benefits.
- 6.5. There are some actions that the Fund can consider taking within the existing portfolio of investments to increase the income the fund receives by altering existing mandates with Fund Managers, the Fund could also consider new asset classes – i.e. more fundamental changes in strategy. A number of new options were discussed and considered, however it became clear that the most appealing of these was residential property (something that the Fund has previously considered). It was also noted that residential property had the potential to have strong positive responsible investment credentials. To further consideration of this asset class those present at the meeting agreed to arrange a training session with members of the Pensions Committee and Board in February 2020, prior to the March 2020 formal committee meeting when the Committee and Board will consider the results of the investment strategy review. This meeting will be arranged in due course.
- 6.6. Under the 'Risk Management' heading, one issue that the Investment Consultant raised was a potential change to the interest rate used for index linked gilts from RPI to CPI, which could potentially have a significant effect on the value of the Fund's current circa £200m portfolio. Given the nature

of this change, and the timing involved, it was decided that action regarding this should not be delayed to future meetings, hence the recommendation produced as part of this report. A paper on this is attached at Confidential Appendix 1 to this report. The Independent Advisor to the Fund has been consulted on the contents of this report.

## **7. Contribution to Strategic Outcomes**

7.1. Not applicable

## **8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)**

### Finance and Procurement

8.1. Finance comments are contained throughout this report as the subject matter is financial in nature. The proposed change to the index linked gilts portfolio should be seen as a tactical change proposed to manage the risk arising from the proposal that the interest rate on index linked gilts is changed, and the fund suffers a permanent loss of capital on this portfolio. This would be revisited following a decision being made regarding this.

### Legal Services Comments

8.2. The Council as administering authority for the Haringey Pension Fund has the power to invest fund monies as set out in Local Government Pension Scheme (Management & Investment Funds) Regulations 2016.

8.3. Regulation 7 sets out what the Investment Strategy should contain and any revision must be published. The Fund must invest, in accordance with its Investment Strategy, any fund money that is not needed immediately to make payments from the fund.

### Equalities

8.4. None applicable.

## **9. Use of Appendices**

9.1. Confidential Appendix 1: Index linked Gilts Review (Page 69 – 82)

## **10. Local Government (Access to Information) Act 1985**

10.1. Not applicable.