

Report for: Pensions Committee and Board 21 November 2017
Item number:

Title: Multi Asset Absolute Return Investment and Updated Investment Strategy Statement

Report authorised by: Clive Heaphy, CFO and S151 Officer

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. At the 20 July 2017 Pensions Committee and Board meeting, the committee agreed to decrease the fund's investment strategy allocation to listed equity by 7.5%, and introduce new allocation to a multi asset absolute return strategy. This report brings back an update for information purposes for the Committee and Board.
- 1.2. The Investment Strategy Statement (ISS) is a statutory document for LGPS funds, as required by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The ISS has been updated in light of the new multi asset absolute return fund manager appointment.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Committee notes the contents of this report; note the selection of the Ruffer sub fund (via the London CIV) as the fund's multi asset absolute return manager; and approves the updated Investment Strategy Statement attached as Appendix 1.

4. Reason for Decision

- 4.1. The fund has experienced large gains over the past 12 months from the buoyancy of equity markets (and the devaluation of Sterling). This has significantly boosted the fund's funding level. Mercer, the fund's investment consultant, reviewed the fund's investment strategy earlier

in 2017, and made the recommendation regarding multi asset absolute return investments to reduce the volatility of the fund's investments.

- 4.2. In accordance with Regulation 7(6) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, each LGPS Fund must publish an Investment Strategy Statement (ISS) by 1 April 2017. The Fund complied with this requirement. The ISS must remain current, so when changes are made to the fund's strategy the document must be updated.

5. Other options considered

- 5.1. None.

6. Background information

- 6.1. At the 20 July 2017 Pensions Committee and Board meeting, the committee agreed to decrease the fund's investment strategy allocation to listed equity by 7.5%, and introduce new allocation to a multi asset absolute return strategy.
- 6.2. It was thus agreed that a formal fund manager selection meeting would be held with the multi asset absolute return managers available on the London CIV: this meeting would be attended by members of the Committee and Board, officers, the fund's independent advisor and investment consultant. The Committee and Board also granted delegated authority to the Chief Financial Officer to appoint a multi asset absolute return fund manager based on the outcome of the fund manager selection meeting and the recommendation of those who attend this meeting.
- 6.3. The fund manager selection meeting was held on 11 September, all members of the Pensions Committee and Board were invited to this meeting. The meeting was attended by the Chair of the Pensions Committee and Board, the Vice Chair of the Committee and Board, 2 employee and employer representatives, the CFO, the Head of Pensions, the fund's independent advisor and the fund's investment consultant. Presentations were received from three fund managers:
 - Ruffer
 - Baillie Gifford
 - Newton
- 6.4. A briefing from Mercer, the investment consultant, was provided to all attendees prior to the meeting with the three fund managers. After the presentations the attendees had the chance to put questions to each manager. The group of attendees agreed, that based on the briefing from Mercer, and the presentations and questions from and to the

managers, to appoint Ruffer as the fund's multi asset absolute return manager.

- 6.5. Confidential appendix 2 details the suitability letter that Mercer have prepared for the fund regarding this appointment. This is attached for information for the Committee and Board members.
- 6.6. Officers are now carrying out due diligence on legal documentation associated with this new investment, prior to funds being transferred and the investment being completed. It is anticipated that this work will conclude before the end of the calendar year.
- 6.7. Under the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Statement of Investment Principles was replaced by the Investment Strategy Statement (ISS).
- 6.8. The ISS must be reviewed and revised by the Council as administering authority when any material changes take place such as changes to the types of investment held or the balance between the types of investments in the Fund. The appointment of Ruffer is a change that must be updated in the ISS to keep this document current.

7. Contribution to Strategic Outcomes

- 7.1. None.

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

Finance and Procurement

- 8.1. The fund will diversify the investment strategy by appointing a multi asset absolute return manager. This will reduce the fund's dependence on market-cap passive equity investments, and should give the fund a higher degree of protection to volatile market shocks which could impact adversely on the fund's funding levels and employer contribution levels. This change to the fund's investment strategy was proposed originally by the fund's investment consultant, Mercer, so proper and adequate investment advice has been sought from a qualified firm in making this investment decision.
- 8.2. The Investment Strategy Statement details the decision by Committee on how the Fund's resources will be invested. The Strategy set has been prepared to maximise returns of Fund's assets within acceptable risk parameters and also to facilitate a reduction in the burden of deficit funding that employers in the Fund are liable for.

8.3. The performance of the Fund's strategy is monitored through a quarterly report that is presented to Committee. Recent performances have been good and generally either in line with or exceeded target.

Legal

8.4. The administering authority must in formulate an investment strategy and comply with the requirements of Regulations 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016. The investment strategy must include those matters set out in Regulation 7(2). Under Regulation 7(7) the administering authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

Equalities

There are no equalities issues arising from this report.

9. Use of Appendices

- 9.1. Appendix 1 – Updated Investment Strategy Statement
- 9.2. Confidential Appendix 2 – Suitability Letter, Ruffer Appointment

10. Local Government (Access to Information) Act 1985

Not applicable.