



Pensions Committee

2.00pm, Wednesday, 24 June 2020

Joint Investment Strategy Panel Activity

Item number 5.11

1. Recommendations

The Pensions Committee (Committee) is requested to:

- 1.1 note the activities of the Joint Investment Strategy Panel during the financial year 2019/20.

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Joint Investment Strategy Panel Activity

2. Executive Summary

- 2.1 The purpose of this report is to provide an update on the activity of the Joint Investment Strategy Panel (JISP) for the year to 31 March 2020, with a focus on the Lothian Pension Fund and the Scottish Homes Pension Fund.
- 2.2 To enable efficient collaboration, the three Chief Financial Officers of the Lothian, Falkirk and Fife Pension Funds established JISP which is designed to align governance for the investment of funds. It advises the appointed officers with responsibility for oversight of the assets of the Lothian, Falkirk and Fife pension funds, currently being the Heads of Finance/CFO for the respective administering authorities.
- 2.3 Each Fund's Committee agreed its own bespoke investment strategy in 2018. During 2019/20, JISP has continued to advise and assist in the oversight of the three Funds' investment strategies, focusing on asset allocation, risk and performance. This includes the oversight of Lothian Pension Fund and Scottish Homes Pension Fund.
- 2.4 JISP monitored and advised on the implementation of investment strategy by officers and the internal investment management team focusing on achieving targeted allocations within the constraints defined by Committee. For Lothian Pension Fund, Panel advised in several areas, including equity manager structure and strategies, allocations to private market investments, including infrastructure and corporate loans, and potential triggers for changes to asset allocation in the light of funding level. For the fully funded Scottish Homes Pension Fund, JISP advised on the appropriate approach to asset-liability matching.

3. Background

- 3.1 Over the year to 31 March 2020, JISP comprised:
- the Chief Investment Officer of LPFI Limited (LPFI);
 - a second senior investment officer of LPFI; and
 - two independent advisers, Gordon Bagot and Scott Jamieson.
- 3.2 JISP provides strategic advice on the implementation of the investment strategies approved by the Committee for the two pension funds for which it is responsible – Lothian and Scottish Homes.
- 3.3 JISP now provides strategic advice on the implementation of strategy for their Fife and Falkirk pension funds.

- 3.4 The external independent advisers on JISP represent an important element of the governance framework, overseeing and scrutinising the investment strategies and implementation activity of the three collaborating funds.
- 3.5 The Funds are currently undertaking a procurement exercise for the external advisers to JISP, now to include three advisors, for an initial period of three years, but with two potential one year extensions. The intention will be to staggered contract end dates over time, to ensure continuity of advice. All three pension funds will participate in the selection process.

4. Main Report

- 4.1 JISP meets quarterly and provides strategic advice on all aspects of the investments of the pension funds. Regular activities include reporting to and making recommendations about investment strategy to the Committee, monitoring and advising on strategy implementation and risk and advising on the types of investment manager to utilise. JISP ensures that important issues are reviewed on a regular basis and the agenda planning document is attached as Appendix 1.
- 4.2 JISP advises on the appropriate investment management structure required to implement the Fund's investment strategy, and on the objectives and constraints appropriate to the various mandates that make up the Fund. It monitors the risk and performance of all portfolios. Panel and the internal investment team monitor all managers on a regular basis using a traffic light system to ensure that scrutiny of portfolios is robust. Continuity of investment process, philosophy, people and ownership and performance are considered in the monitoring process. Where there are concerns over a manager, more regular and in-depth monitoring is undertaken.
- 4.3 The primary focus for JISP during 2019/20 has been implementation of the investment strategies for Lothian Pension Fund and Scottish Homes Pension Fund, previously agreed by Committee, as well as implementation of the strategies of the collaborative partner funds. Each partner fund has its own bespoke investment strategy, but they are all defined in common terms, and have broadly similar objectives and strategies.
- 4.4 Special items addressed by Panel over 2019/20 have included:
- Fund strategy focus reviews of Lothian Pension Fund, Scottish Homes Pension Fund, Falkirk Council Pension Fund, Fife Pension Fund
 - Annual policy group focus reviews for Equity Assets (including private equity), Real Assets (including property, infrastructure & timber), Debt Assets (including gilts, non-gilt debt and cash) and Currency Exposures & Hedging
 - Review of property strategy (both direct and indirect investments)
 - Annual reviews of all policy group and individual investment mandates

- Review of sustainable equity mandates
- Research presentation and discussions on asset allocation framework
- Annual review of all internally managed portfolios by external advisers, including triennial reappraisals of three internal mandates
- Review of securities lending policies and implementation
- Appraisal of pensions administration and investment cost benchmarking
- Statements of Investment Principles
- Draft Statement of Responsible Investment Principles
- Audit of foreign exchange transaction costs
- Analysis of additional voluntary contribution (AVC) investment product provision
- Panel's Terms of Reference and self-assessment of its effectiveness
- Stewardship and engagement activities, including ESG analysis and carbon monitoring
- Investment controls and compliance (including custodian)

4.5 JISP's self-assessment of its effectiveness is regarded as an important element of good governance. This is a formal review, undertaken every year using qualitative output from a survey questionnaire and quantitative output from independent sources of data. Both qualitative and quantitative output indicate that JISP is operating effectively, but the survey attempts to identify areas for improvement. This year the survey has been redesigned to align with the governance surveys carried out for LPF's other bodies in 2019, as contemplated in the Governance Review. An area already identified for improvement as part of this exercise is to obtain more concrete measurement of Panel's effectiveness by the Committee itself, and so Panel will seek more formal evidence that all key stakeholders are satisfied with the way it is operating.

4.6 Over the year, JISP's activity has resulted in:

- Policy group mandates being agreed with new constraints to ensure robust controls on strategy implementation (controls now enhanced by the new front office system)
- Continued implementation of the investment strategies of:
 - Lothian Pension Fund – increase in non-gilt debt exposure, continued deployment of capital in infrastructure investments and reduction in index-linked gilts exposure
 - Scottish Homes Pension Fund – monitoring of asset-liability matching process
- Further development of monitoring of property investment strategy
- Adjustments to employer strategies, notably the reduction in risk in the Buses strategy

- Evolution and enhancement of the approach to and communication of the Fund's Responsible Investment and assessment of external manager sustainability products
 - Updated mandates for each of the investment portfolios, including objectives and controls.
- 4.7 Importantly, the focus of JISP is the long-term superior risk-adjusted asset returns of the Funds, rather than the short-term vacillations of the investment markets, by deploying each Fund's long-term capital at an appropriate level of risk.
- 4.8 Members of JISP, including external advisers, will be presenting at the upcoming training event and attending the Committee meeting. They will provide further detail on its activities over the year.

5. Financial impact

- 5.1 Investment strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategic advice of JISP influences investment strategy and implementation with the aim of achieving required risk-adjusted returns.

6. Stakeholder/Regulatory Impact

- 6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

- 7.1 None.

8. Appendices

Appendix 1 – Agenda Planning for Joint Investment Strategy Panel

Agenda Planning for Joint Investment Strategy Panel

Lothian, Fife and Falkirk Council Pension Funds

Joint Investment Strategy Panel

June 2020

ITEM 3A

JOINT INVESTMENT PANEL – AGENDA PLANNING

This document provides the Panel with an overview of the proposed agendas for future meetings of the Joint Investment Strategy Panel. It also provides a more general overview of the current cycle of Panel papers. An agenda planning document will be provided each quarter.

Some agenda items refer to Committee reports. These are Lothian reports and it has been proposed that reporting for the Lothian, Falkirk and Fife Committees is synchronised, to the extent possible, going forward. There will, of course, be other matters and papers that need to be brought to the attention of the Panel on an ad hoc basis.

Since September 2019, investment mandates are reviewed annually at the same time as the relevant asset class focus.

The proposed agendas for the next two meetings are set out below.

September 2020

Special Items

- Fund Strategy Focus – Fife Council Fund Annual Review
- Policy Group Focus – Real Assets (property, infra & timber) Annual Review, incl. Investment & Policy Group Mandates
- Policy Group Focus – Currency Exposures/Hedging, incl. Investment & Policy Group Mandates
- Audit of Foreign Exchange Transaction Costs

Quarterly Items

- Investment Monitoring
- Asset/Liability Context – Investment Markets
- Investment Strategy Implementation

December 2020

Special Items

- Fund Strategy Focus – Scottish Homes Pension Fund Annual Review
- Policy Group Focus – Debt Assets (Gilts, Non-Gilts, Cash) Annual Review, incl. Investment & Policy Group Mandates
- Internal Mandate Review – Index-linked Gilts
- Internal Mandate Review – Fixed Income Assets
- Review of Governance of Internal Portfolios by external JISP members
- Stewardship & Engagement
- AVC Monitoring

Quarterly Items

- Investment Monitoring
- Asset/Liability Context – Investment Markets
- Investment Strategy Implementation

Future Joint Investment Strategy Panel Dates

- Tuesday 8 September 2020, 10.00am, Atria One Boardroom
- Thursday 3 December 2020, 10.30am, Atria One Boardroom

APPENDIX 1

Frequency			Month
Annually	Fund Strategy Focus		
	Lothian Pension Fund		March
	Falkirk Council Pension Fund		June
	Fife Pension Fund		September
	Scottish Homes Pension Fund		December
	Policy Group Focus – Annual Reviews, incl. Investment & Policy Group Mandates		
	Equities (listed & unlisted), incl. Carbon Assessment		June
	Real Assets (property, infra & timber)		September
	Currency Exposures/Hedging		September
	Debt Assets (Gilts, Non-Gilts, Cash)		December
	Securities Lending Policy Review		March
	Investment Controls & Compliance (incl. custodian)	Committee Report	June
	Statement of Investment Principles & Responsible Investment Policy	Committee Reports	June
	Investment Strategy Panel – Terms of Reference & Effectiveness		June
	Audit of Foreign Exchange Transaction Costs		September
	Review of Governance of Internal Portfolios by external JISP members		December
	Stewardship	Committee Report	December
	Pension Fund Cost Benchmarking	Committee Report	December
	AVC Monitoring – Lothian, Falkirk & Fife		December

APPENDIX 1

Frequency	Month		
Quarterly	Investment Portfolio Monitoring (traffic lights)		
	Asset/Liability Context – Investment Markets (incl. Adviser Ideas/Recommendations)		
	Investment Strategy Implementation/Funding Updates		
Every 3 Years (minimum)	Investment Strategy Reviews	Due 2021	Typically
	Actuarial Valuations	Due 2021	December or March
	Funding Strategy Statements	Due 2021	
	Internal Mandate Reviews	Most recent review:	Review due:
	UK All Cap	June 2018	June 2021
	UK Mid Cap	June 2018	June 2021
	Europe ex-UK	June 2016	December 2022
	US	March 2019	March 2022
	GLOVE	March 2018	March 2021
	GHDY	March 2018	March 2021
	SMuRV	March 2018	March 2021
	Index-linked Gilts	December 2016	December 2020
	Fixed Income Assets	December 2016	December 2020
	Property	June 2020	September 2023
As required	Development Work Transitions		