



Pensions Committee

2.00pm, Wednesday, 23 June 2021

Joint Investment Strategy Panel Activity

1. Recommendations

The Pensions Committee (Committee) is requested to:

- 1.1 note the activities of the Joint Investment Strategy Panel during the financial year 2020/21.

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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 2021, 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 the 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 2020/21, 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 The 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, the JISP 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, the JISP advised on the appropriate approach to asset-liability matching.

3. Background

- 3.1 Over the year to 31 March 2021, the composition of the JISP changed. On the retirement of one independent adviser (Gordon Bagot), the Lothian, Falkirk and Fife funds agreed to appoint three independent advisers. Following an open selection process, Scott Jamieson was reappointed for a further term and two new independent advisers were appointed (Kirstie MacGillivray and Stan Pearson).
- 3.2 The JISP advisors now comprise:
 - three independent advisers;
 - the Chief Investment Officer of LPFI Limited (LPFI); and
 - a second senior investment officer of LPFI.

- 3.3 The 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.
- 3.4 The JISP also provides strategic advice on the implementation of strategy for the Fife and Falkirk pension funds.
- 3.5 The external independent advisers on the JISP represent an important element of the governance framework, overseeing and scrutinising the investment strategies and implementation activity of the three collaborating funds.

4. Main Report

- 4.1 The 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. The JISP ensures that important issues are reviewed on a regular basis and the agenda planning document is attached as Appendix 1.
- 4.2 The 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. The JISP and the internal investment team monitor all managers on a regular basis using a traffic light system to ensure that scrutiny of portfolios is consistent and 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 the JISP during 2020/21 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 2020/21 have included:
 - Review of Actuarial Valuations (2020), Funding Strategy Statements and Investment Strategy
 - A fund strategy focus review of Scottish Homes Pension Fund

- Annual policy group focus reviews for Equity Assets (including carbon tracking), Real Assets (including property, infrastructure and timber), Debt Assets (including gilts, non-gilt debt and cash) and Currency Exposures and Hedging
- Annual reviews of all policy group and individual investment mandates
- Triennial reviews of internal mandates: Debt Assets, Property and Global Equity
- Annual review of all internally managed portfolios by external advisers
- Amendment of securities lending policies
- Investment cost benchmarking
- Statement of Responsible Investment Principles
- Additional voluntary contribution (AVC) provision
- JISP Terms of Reference and Effectiveness
- Stewardship and engagement activities, including ESG analysis and carbon monitoring
- Investment Controls & Compliance
- Presentation from Portfolio Evaluation

4.5 The 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. Qualitative output from the survey indicates that the JISP is operating effectively. With a slightly changed composition over the year, the survey generated fresh ideas / areas for improvement. The Committee will be asked later in the year to comment on the JISP's effectiveness to ensure all key stakeholders are satisfied with the way it is operating.

4.6 After a year of wild swings in stock market prices and valuations, the quantitative output is mixed. As described in more detail in the annual review of the Lothian Pension Fund, the returns of the fund have been very strong in absolute terms both over the year and over several years, but they now lag the benchmark returns. On the other hand, they remain above the proxy for the liabilities of the fund over the long term and the independent performance measurer demonstrates that the fund is achieving lower risk exposure than the benchmark.

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

- Continued implementation of the investment strategies of:
 - Lothian Pension Fund – activity across all policy groups, including investments in infrastructure, corporate debt and US inflation protected sovereign bonds as well as rebalancing activity in global equity portfolios
 - Scottish Homes Pension Fund - transfer of employer assets from MEG (Mature Employers Group – a Gilts-based Strategy) and increase in cash.

- Updated mandate objectives and controls for each investment portfolio and each policy group, including:
 - changes to constraints within Real Assets mandate
 - amendment to Real Assets benchmark
 - new property investment guidelines
- Introduction of the Statement of Responsible Investment Principles to improve clarity of approach and communicate more widely
- A change to agenda plans for investment strategy implementation reporting (to improve efficiency and tie in with the current investment strategy review)
- Oversight of investment activity across all policy groups
- A joint procurement process for a voting and engagement provider
- Preparatory work for the current investment strategy review
- An amended Securities Lending Policy
- Adjustments to employer strategies

4.8 Importantly, the focus of the JISP is the long-term superior risk-adjusted asset returns for the Funds. The short-term volatility of asset prices is less important given that the fund remains open to new entrants and cash flow is stable. The JISP continues to focus on deploying each fund's long-term capital at an appropriate level of risk.

4.9 Members of JISP, including external advisers, will be presenting at training events and Committee meetings over the year ahead when they will provide further detail on its activities over the year, including the 2021 review of investment strategy.

5. Financial impact

5.1 Investment strategy is a key determinant of asset returns and risk, funding level 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

Joint Investment Strategy Panel – Agenda Planning

This document provides 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 generally Lothian reports, but Falkirk and Fife reports may also be presented. 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 2021

Special Items

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

Quarterly Items

- Investment Strategy Implementation / Funding Updates
- Investment Portfolio Monitoring (Traffic Lights)
- Asset/Liability Context – Investment Markets

December 2021

Special Items

- Policy Group Focus, Annual Review, incl. Investment and Policy Group Mandates – Debt Assets (Gilts, Non-Gilts, Cash)
- Review of Governance of Internal Portfolios by external JISP members
- Stewardship
- Pension Fund Cost Benchmarking
- AVC Monitoring – Lothian, Falkirk & Fife

Quarterly Items

- Investment Strategy Implementation/ Funding Updates
- Investment Portfolio Monitoring (Traffic Lights)
- Asset/Liability Context – Investment Markets

Future Joint Investment Strategy Panel Dates

- Monday 6 September 2021, 10.30am, TEAMS meeting or Atria One Boardroom
- Wednesday 1 December 2021, 12.30am, TEAMS meeting or Atria One Boardroom

Frequency			Month
Annually	Fund Strategy Focus – Annual Review (to end March)		
	Lothian Pension Fund		June
	Falkirk Council Pension Fund		June
	Fife Pension Fund		June
	Scottish Homes Pension Fund		June
	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 or March	
AVC Monitoring – Lothian, Falkirk & Fife		December	

Frequency				Month
Quarterly	Investment Strategy Implementation/Funding Updates			March, June, September, December
	Investment Portfolio Monitoring (traffic lights)			
	Asset/Liability Context – Investment Markets (incl. Adviser Ideas/Recommendations)			
Every 3 Years (minimum)	Investment Strategy Reviews (at least every 3 years)			Typically December or March
	Actuarial Valuations			
	Funding Strategy Statements			
				Due 2024
				Due 2023/24
				Due 2023/24
As required	Development Work Transitions			