



Pensions Committee

2.00pm, Wednesday, 29 June 2022

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 2021/22.

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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 2022, 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 2021. During 2021/22, 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 policy group allocation, manager structure and strategies, benchmarks and performance, portfolio diversification and allocations to private market investments, including infrastructure and corporate loans. For the fully funded Scottish Homes Pension Fund, the JISP continued to monitor the asset-liability matching.

3. Background

- 3.1 The Heads of Finance/Chief Financial Officers of the Lothian, Falkirk and Fife Pension Funds operate the JISP to provide advice to their Pensions Committees and officers.
- 3.2 The JISP began the year with three independent advisers regularly in attendance at meetings. Scott Jamieson retired at the end of December 2021, leaving two independent advisers, Kirstie MacGillivray and Stan Pearson.
- 3.3 The Heads of Finance/Chief Financial Officers have operated the JISP with the two advisers since then and propose to retain the current arrangement. (The JISP previously operated with two advisers until 2020.) They will monitor its effectiveness over the next 12 months.

- 3.4 Consequently, the JISP now comprises:
- two independent advisers;
 - the Chief Investment Officer of LPFI Limited (LPFI); and
 - a second senior investment officer of LPFI.
- 3.5 The JISP provides strategic advice on the implementation of the investment strategies approved by this Committee for the two pension funds for which it is responsible – Lothian and Scottish Homes.
- 3.6 The JISP also provides strategic advice on the implementation of strategy for the Fife and Falkirk Pension Funds.
- 3.7 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 2021/22 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 2021/22 have included:

- Annual review of investment strategy
- Annual reviews of each policy group, including strategy, portfolio constraints, currency exposures, activity, and risk / return
- Annual reviews of all investment mandates with assessment of strategic fit
- Performance measurement with the Fund's independent provider
- Responsible investment principles
- Carbon monitoring
- Triennial reviews of internal mandates: US, UK and UK Mid Cap Equity, Currency Hedging Programme
- Annual review of all internally managed portfolios by external advisers
- Consideration of the financial market regime and its impact on investment strategy
- Internal portfolio development discussions focused on the Quality style
- Special situations allocation discussions
- Investment benchmarking proposals
- Investment cost benchmarking
- Additional voluntary contribution (AVC) provision
- JISP Terms of Reference and Effectiveness
- Stewardship and engagement activities, including Statement of Investment Principles and Statement of Responsible Investment Principles
- Risk management, controls, and regulatory compliance
- The implications of a merger of the Lothian and Falkirk funds

4.5 Given a change in the composition of the JISP, a new Pensions Committee and the announcement of the exploration of the Lothian-Falkirk merger, officers have agreed to postpone the self-assessment of the effectiveness of the panel until the second half of 2022. This self-assessment is regarded as a useful exercise in good governance and has historically used qualitative and quantitative input. As a key stakeholder, the Committee will be asked to contribute to the assessment.

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

- There has been investment activity across all policy groups, notably investments in infrastructure, corporate debt, and US inflation-protected sovereign bonds as well as rebalancing of global equity portfolios
- Mandate objectives and controls for each investment portfolio and each policy group were updated after consideration of investment constraints, ESG analysis and risk
- Governance and oversight of investment activity and investment positioning across all policy groups
- LPFI started managing a US TIPS portfolio for a partner fund
- LPFI started managing a global low volatility equity portfolio and a gilts portfolio for another partner fund
- Decisions about currency hedging and plans for further consideration, including training for Committees and Boards

- Full analysis of stock lending, including process and assessment of compensation for risks
- Adviser proposals for equity policy group allocations, including a global quality style allocation
- Changes to quarterly papers to streamline and create synergies where possible and amendment to annual agenda
- Analysis and discussion of alternative fee structures of external managers

4.7 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 relatively stable. The JISP continues to focus on 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 training events and Committee meetings over the year ahead when they will provide further detail on its activities over the year.

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 advice of the JISP influences investment strategy 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 2022

Special Items

- Policy Group Focus – Real Assets (property, infra & timber): Annual Reviews, incl. Policy Group Mandates
- Currency Exposures / Hedging: Annual Reviews, incl. Policy Group Mandate
- Investment Controls & Compliance (incl. custodian) (Committee Report)
- Audit of Foreign Exchange Transaction Costs

Quarterly Items

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

December 2022

Special Items

- Policy Group Focus – Debt Assets (LDI (Gilts), Non-Gilt Debt, Cash): Annual Reviews, incl. Policy Group Mandates
- Review of Governance of Internal Portfolios by external JISP members
- Stewardship (including Statement of Responsible Investment Principles)
- Pension Fund Cost Benchmarking
- AVC Monitoring – Lothian, Falkirk & Fife
- Internal Mandate review: Europe ex-UK

Quarterly Items

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

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Future Joint Investment Strategy Panel Dates

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| <ul style="list-style-type: none">• Tuesday 6 September 2022, 10.30am, TEAMS meeting or Atria One Boardroom• Monday 5 December 2022, 10.30am, TEAMS meeting or Atria One Boardroom |
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Frequency		Month
Annually	Fund Strategy Focus – Annual Review (to end March) Incl. assessment of stock lending	
	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 (LDI (Gilts), Non-Gilt Debt, Cash)	December
	Securities Lending Policy Review	March
	Traffic Lights Process – Annual Review	June
	Investment Controls & Compliance (incl. custodian)	Committee Report September
	Statements of Investment Principles & Responsible Investment Policy	Committee Reports June
	Joint Investment Strategy Panel – Terms of Reference & Effectiveness	June
	LPF Chief Risk Officer attends JISP meeting	September
Audit of Foreign Exchange Transaction Costs	September	
Review of Governance of Internal Portfolios by external JISP members	December	
Stewardship (including Statement of Responsible Investment Principles)	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 Investment Portfolio Monitoring (traffic lights) Asset/Liability Context – Investment Markets (incl. Adviser Ideas/Recommendations)			March, June, September, December
Every 3 Years (minimum)	Investment Strategy Reviews (at least every 3 years) Actuarial Valuations Funding Strategy Statements		Due 2024 Due 2023/24 Due 2023/24	Typically December or March
	Internal Mandate Reviews UK All Cap UK Mid Cap Europe ex-UK US GLOVE GHDY SMuRV Debt Assets Property	Most recent review June 2021 June 2021 December 2019 March 2022 March 2021 March 2021 March 2021 December 2020 June 2020	Review due June 2024 June 2024 December 2022 March 2025 March 2024 March 2024 March 2024 December 2023 September 2023	March, June, September and December
As required	Development Work Transitions			