



Pensions Committee

2.00pm, Wednesday, 21 June 2023

Joint Investment Strategy Panel Activity

Item number 6.7

1. Recommendations

The Pensions Committee (Committee) is requested to:

- 1.1 note the activities of the Joint Investment Strategy Panel during the financial year 2022/23.

Bruce Miller,
Chief Investment Officer, Lothian Pension Fund

E-mail: lpfgovernancecomms@lpf.org.uk | Tel: 0333 996 1900

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 2023, 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 2022/23, 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 strategic investment advice to their Pensions Committees and officers.
- 3.2 The JISP currently comprises:
 - two external, independent advisers;
 - the Chief Investment Officer of LPFI Limited (LPFI); and
 - a second senior investment officer of LPFI.
- 3.3 The JISP has been operating with two external, independent advisers (Kirstie MacGillivray and Stan Pearson) for almost 18 months since the retirement of the third

adviser. During that time, the Heads of Finance/Chief Financial Officers have assessed the effectiveness of the JISP with two advisers rather than three and concluded that the arrangement provides effective advice and support enabling them to implement each of their funds' investment strategies.

- 3.4 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.
- 3.5 The JISP also provides strategic advice on the implementation of strategy for the Fife and Falkirk Pension Funds.
- 3.6 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 officers at least 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 2022/23 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 Certain items that would be expected to be addressed by Panel regularly and were during 2022/23 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
- Annual review of all internally managed portfolios by external advisers
- Regular consideration of the financial market regime and its impact on investment strategy
- Internal portfolio development discussions on the equity styles, European equities, cash management and credit
- Investment benchmarking analysis and proposals
- Investment cost benchmarking
- Additional voluntary contribution (AVC) provision
- Assessment of JISP effectiveness
- Stewardship and engagement activities, including annual reviews of Statement of Investment Principles and Statement of Responsible Investment Principles and portfolio carbon monitoring exercise
- Risk management, controls, and regulatory compliance
- Resourcing needs
- The implications of a merger of the Lothian and Falkirk funds

4.5 Other matters are topical and are not necessarily predictable. There were a few of these during 2022/23, which resulted in detailed discussions and consideration by the Panel and officers:

- The acceleration in inflation resulting from the COVID-related monetary and fiscal stimulus
- The political instability in the UK that culminated in a mini-budget with outsized consequences, including three prime ministers in four months and a dramatic spike in real interest rates
- The geopolitical tensions emanating from the war in Ukraine, including the potential impact on Chinese intentions with regards to Taiwan
- The uncertainties of the evolving regulatory and commercial landscape of responsible investment

4.6 Over the year, JISP's activity has resulted in various important outcomes, some of which support officer opinion that the Panel is undertaking its responsibilities diligently and effectively, working between quarterly meetings when required:

- The year was dominated by the spectacular move in bond yields. Following an extended period with a significant underweight exposure to UK gilts, during which they generated deeply negative returns, the JISP responded at short notice to consider, challenge, and ultimately support the internal team's proposal to add to the LDI policy group. In so doing, the Fund was

able to take advantage of market weakness and the availability of the first positive real yields in several years.

- The year was also one of notable progress in terms of investing in critical infrastructure assets, several of which will support the energy transition. This is a less liquid asset class, and the investing activity has taken several years to build a diversified portfolio. At end March 2023, the Fund had achieved its targeted position.
- Mandate objectives and controls for each investment portfolio and each policy group were updated after consideration of investment constraints, ESG analysis and risk.
- Shared knowledge of the evolution of the regulatory environment for asset management firms around important issues, such as ESG.
- The advisers provided support and challenge in equal measure to evolve the shape of the equity policy allocation over the coming years. The new internally managed global quality portfolio is now under construction. It is small but assets are expected to gradually increase.
- The JISP provided the independent expertise to aid the governance and oversight of investment activity and investment positioning across all policy groups.
- LPFI increased the assets it manages for partner funds. It now manages two different global equity strategies and two different sovereign bond strategies.
- After long consideration, an adjustment to the Fund benchmark was recommended to the Pensions Committee.

4.7 Importantly, the focus of the JISP is the long-term funding of the pension fund through the allocation of contributions and invested assets. 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 for the expected return. The JISP also provides the expertise to advise and support oversight of implementation.

4.8 Members of JISP, including external advisers, present at training events and Committee meetings. They will continue to do that in the year ahead, starting in June when the external advisers will comment on activities during 2022/23, the Fund's investments and on the current investing environment.

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

Appendix 1

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 2023

Special Items

- Policy Group Focus – Real Assets (property, infra & timber)
- Policy Group Focus – Currency Exposures/Hedging
- Stewardship (including Statement of Responsible Investment Principles)
- Investment Controls & Compliance
- LPF Chief Risk Officer (verbal update)
- Audit of Foreign Exchange Transaction Costs
- Portfolio review – Direct Property
- Terms of Reference – JISP

Quarterly Items

- Multi-Asset Strategy & Perspectives
- Investment Strategy Implementation/ Funding Updates
- Investment Portfolio Monitoring (Traffic Lights)

December 2023

Special Items

- Policy Group Focus – Debt Assets (LDI (Gilts), Non-Gilt Debt, Cash)
- Joint Investment Strategy Panel - Effectiveness
- Review of Governance of Internal Portfolios by external JISP members
- Investment Strategy Reviews/Actuarial Valuations/ Funding Strategy Statements (if data received from Actuary)
- Portfolio review – Debt Assets

Quarterly Items

- Multi-Asset Strategy & Perspectives
- Investment Strategy Implementation/ Funding Updates
- Investment Portfolio Monitoring (Traffic Lights)

Future Joint Investment Strategy Panel Dates

- Tuesday 5th September 2023, 10.30am, TEAMS meeting or Atria One Boardroom
- Monday 4th December 2023, 10am, 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)		June
	Real Assets (property, infra & timber)		September
	Currency Exposures/Hedging		September
	Debt Assets (LDI (Gilts), Non-Gilt Debt, Cash)		December

	Securities Lending Policy Review		June
	Traffic Lights Process – Annual Review		June

	Investment Controls & Compliance		September
	Statements of Investment Principles	Committee Report	June
	Joint Investment Strategy Panel – Terms of Reference		June
	Joint Investment Strategy Panel - Effectiveness		December
LPF Chief Risk Officer attends JISP meeting		September	

Audit of Foreign Exchange Transaction Costs		September	

Stewardship (including Statement of Responsible Investment Principles)	Committee Report	September	
Pension Fund Cost Benchmarking	Committee Report	December or March	
Review of Governance of Internal Portfolios by external JISP members		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/Actuarial Valuations/ Funding Strategy Statements (at least every 3 years) <table border="0" data-bbox="427 715 1727 1070"> <thead> <tr> <th data-bbox="427 715 1077 746">Internal Mandate Reviews</th> <th data-bbox="1077 715 1451 746">Most recent review</th> <th data-bbox="1451 715 1727 746">Review due</th> </tr> </thead> <tbody> <tr> <td data-bbox="427 746 1077 778">UK All Cap</td> <td data-bbox="1077 746 1451 778">June 2021</td> <td data-bbox="1451 746 1727 778">June 2024</td> </tr> <tr> <td data-bbox="427 778 1077 810">UK Mid Cap</td> <td data-bbox="1077 778 1451 810">June 2021</td> <td data-bbox="1451 778 1727 810">June 2024</td> </tr> <tr> <td data-bbox="427 810 1077 842">Europe ex-UK</td> <td data-bbox="1077 810 1451 842">March 2023</td> <td data-bbox="1451 810 1727 842">March 2026</td> </tr> <tr> <td data-bbox="427 842 1077 874">US</td> <td data-bbox="1077 842 1451 874">March 2022</td> <td data-bbox="1451 842 1727 874">March 2025</td> </tr> <tr> <td data-bbox="427 874 1077 906">GLOVE</td> <td data-bbox="1077 874 1451 906">March 2021</td> <td data-bbox="1451 874 1727 906">March 2024</td> </tr> <tr> <td data-bbox="427 906 1077 938">GHDY</td> <td data-bbox="1077 906 1451 938">March 2021</td> <td data-bbox="1451 906 1727 938">March 2024</td> </tr> <tr> <td data-bbox="427 938 1077 970">SMuRV</td> <td data-bbox="1077 938 1451 970">March 2021</td> <td data-bbox="1451 938 1727 970">March 2024</td> </tr> <tr> <td data-bbox="427 970 1077 1002">Debt Assets</td> <td data-bbox="1077 970 1451 1002">December 2020</td> <td data-bbox="1451 970 1727 1002">December 2023</td> </tr> <tr> <td data-bbox="427 1002 1077 1034">Property</td> <td data-bbox="1077 1002 1451 1034">June 2020</td> <td data-bbox="1451 1002 1727 1034">September 2023</td> </tr> </tbody> </table>			Internal Mandate Reviews	Most recent review	Review due	UK All Cap	June 2021	June 2024	UK Mid Cap	June 2021	June 2024	Europe ex-UK	March 2023	March 2026	US	March 2022	March 2025	GLOVE	March 2021	March 2024	GHDY	March 2021	March 2024	SMuRV	March 2021	March 2024	Debt Assets	December 2020	December 2023	Property	June 2020	September 2023	Due 2023/24 Typically December or March March, June, September and December
Internal Mandate Reviews	Most recent review	Review due																																
UK All Cap	June 2021	June 2024																																
UK Mid Cap	June 2021	June 2024																																
Europe ex-UK	March 2023	March 2026																																
US	March 2022	March 2025																																
GLOVE	March 2021	March 2024																																
GHDY	March 2021	March 2024																																
SMuRV	March 2021	March 2024																																
Debt Assets	December 2020	December 2023																																
Property	June 2020	September 2023																																
As required	Development Work Transitions																																	