

Cambridgeshire
Pension Fund

Pension Fund Committee

13 December 2021

Report by: Head of Pensions

Subject: Investment Strategy Statement

Purpose of the Report: To present to the Pension Fund Committee for approval the final draft Investment Strategy Statement including the Responsible Investment policy, reflecting feedback from the Committee and consultation with scheme employers and members.

Recommendations: 1. Approve the Investment Strategy Statement for publication on the Fund's web pages; and
2. Approve the summary of feedback from the consultation that will be published on the Fund's web pages.

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1 Background

- 1.1 The Fund is required to maintain an Investment Strategy Statement (ISS) as described by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- 1.2 The ISS should set out the approach of the Pension Fund to investments that includes, amongst other things:
- (a) a requirement to invest fund money in a wide variety of investments;
 - (b) the assessment of the suitability of different types of investments;
 - (c) the approach to risk, including the ways in which risks are assessed and managed;
 - (d) the approach to pooling investments;
 - (e) the policy on how social, environmental and corporate governance considerations are taken into account; and
 - (f) the policy on the exercise of the rights (including voting rights) attaching to investments.
- 1.3 The Fund's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

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- 1.4 The Fund 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. The Fund last approved its ISS on 29 March 2018.
- 1.5 The Fund must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.
- 1.6 On 25 March 2021, the Pension Fund Committee (PFC) approved a revised ISS incorporating a substantially strengthened Responsible Investment Policy and agreed to undertake a consultation with stakeholders on the ISS.

2 Consultation

- 2.1 A consultation has been undertaken to seek the views of scheme employers and members on the revised Responsible Investment (RI) strategy which is incorporated in the draft ISS.
- 2.2 The consultation was launched in May 2021, with email invitations to respond issued to all scheme employers and those members (active, deferred and pensioners) for whom a live email address is held in the Fund's records.
- 2.3 195 responses were received to direct email requests to over 30,000 members and employers of which four responses were from scheme employers.
- 2.4 The results of the individual questions asked in the consultation are attached as Appendix A, showing the percentage of the 195 respondents who scored the questions on a five-point scale: Strongly agree, Agree, Neutral, Disagree, Strongly disagree.
- 2.5 A summary of the feedback from the consultation was discussed by members of the PFC and Local Pension Board (LPB) at a workshop on 4 August 2021. In summary, the outcome of the consultation was that:
 - 2.5.1 Scoring was supportive of the document and the policies therein, with favourable scores for each question (Strongly agree and Agree) in the range 51% to 92%; negative scores (Strongly disagree and Disagree) were in the range 2% to 12%;
 - 2.5.2 Narrative feedback provided clarification to the scoring. For example, some scores in Disagreement with the policies were because the respondent did not want the Fund to make any changes to investment policies to address RI issues;
 - 2.5.3 It was recognised that the ISS is a technical document written in technical language, but it would be beneficial to the reader if the wording was clearer, and terminology explained better.
- 2.6 A summary of the feedback and actions arising from the consultation has been prepared for publication on the Fund's web pages and is attached as Appendix B for review by the PFC.

3 External Review

3.1 In parallel with the consultation survey, an external consultancy, Minerva, has been engaged by the ACCESS pool to assist in documenting RI guidance for the ACCESS pool, building upon the RI policies of each of the eleven ACCESS partner funds. Minerva have conducted a gap analysis of the RI policies of each of the eleven funds. Initial feedback on the gap analysis, broken down into 5 areas of analysis: Governance, Investment approach, Implementation, Stewardship, Reporting, was that:

3.1.1 The fund achieved the joint highest score across all 11 funds for reporting;

3.1.2 Overall, Cambridgeshire Pension Fund was ranked joint 3rd (with Northamptonshire) out of 11;

3.1.3 The review has highlighted areas of focus:

- Clarifying the purpose of the RI policy – now updated in the draft ISS;
- Reference to the Fund's conflicts of interest policy – a policy is being developed under a separate work stream.

4 Pension Fund Committee and Local Pension Board feedback

4.1 A virtual workshop was held on 4 August 2021 for the PFC and LPB to review and discuss the output from the consultation. The main issues raised by attendees were:

4.1.1 The response rate to the consultation was disappointingly low. Action should be taken to facilitate better participation in future consultations. Suggestions included making the questions simpler or more direct, and to improve communication with members e.g. by sending reminder emails.

4.1.2 There may be a conflict between scheme members who preferred that the Fund optimise its investment performance in contrast to those that supported positive steps to mitigate Environmental, Social & Governance (ESG)/RI issues such as climate change. Any changes to investment approach must be consistent with the fiduciary duties of the PFC.

4.1.3 Specifically, on climate change: -

4.1.3.1 How should the Fund respond to scheme employers who had themselves declared a climate emergency or made local commitments to achieve net carbon neutrality? However, it is noted that employers do not share the PFC's fiduciary duty to scheme members.

4.1.3.2 Can the Fund justify not stating an ambition to make its investment portfolio net carbon neutral and align with the UK Government's target to achieve this by 2050?

4.1.3.3 How will the implementation of the Fund's policies be facilitated by, and aligned with policies of, the ACCESS Pool relating to climate change?

4.1.3.4 The Fund's Independent Adviser supported the Fund taking considered steps forward rather than making bold commitments that were not

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supported by a credible plan of action, which might lead to the accusation of “green-washing”.

- 4.1.4 The Fund’s policy of engagement in preference to divestment needs to be clarified to explain that where engagement is not effective and divestment is considered does this apply to an individual stock or to the investment manager or, in the pooling context, an ACCESS sub-fund.
- 4.2 Further to the feedback session on 4 August 2021, the following changes have been made to the ISS:
- 4.2.1 A commitment is stated for the Fund’s investments to have net-zero carbon emissions by 2050 (or earlier). Over the next 12 months (by December 2022) the Fund will develop a credible plan with milestone dates to achieve this, in conjunction with the existing work scheduled by Mercer to draft the Fund’s first report that meets the requirements of the Task-Force on Carbon-Related Financial Disclosures (TCFD);
- 4.2.2 The wording on engagement has been expanded;
- 4.3 In response to the consultation responses and feedback from Minerva, officers have also taken the following actions:
- 4.3.1 Reviewed the entire ISS document, focussing on the main ISS elements that were not reviewed in the draft distributed, aiming to make it easier to read, using terminology consistently and, avoiding or explaining acronyms and jargon;
- 4.3.2 Added additional explanation of:
- The roles of PC and ISC
 - The scope of the investment strategy required by the Investment Regulations
 - The Fund having an Independent Adviser
 - The strategic asset allocation and periodic rebalancing back to central strategic target allocations
 - Pooling, expanding upon the objectives of pooling, and size and composition of ACCESS. Clarifying usage of terminology for the ACCESS pool, ACCESS ACS (Authorised Contractual Scheme), ACCESS funds, pool operator etc.
- 4.3.3 Added a specific new risk on climate to align with the Fund’s Risk Register;
- 4.3.4 Explained the Background and objective of the RI policy;
- 4.3.5 Noted that the policy prioritises the next steps which are mainly research that will inform subsequent steps and a further iteration of the RI Policy.
- 4.4 A revised draft of the ISS was reviewed at the September meeting of the ISC, and a further amendment requested to Section 5.B Climate Risk to insert the words “or funds” in the following paragraph:

“The risks to the value of the Fund’s investments arising from climate change arise from exposures to industries, companies or funds that are valued on the basis of business

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models that may be threatened by climate change, or based upon reserves of assets that may never be realised due to changes in technology, markets and societal habits arising from climate change (“stranded assets”). The incidence and timing of changes in value need to be analysed further to understand the risks to the Fund”.

- 4.5 A final draft ISS is attached at Appendix C and a tracked changes comparison to the ISS issued with the consultation is attached as Appendix D.
- 4.6 The ISS will be reviewed again during 2022 to ensure that the RI policies and actions reflect the milestone plan for being net-zero by 2050 and to ensure alignment with emerging best practice including steps taken by partner ACCESS and wider LGPS funds.

5 Relevant Pension Fund Objectives

- To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund’s stakeholders, particularly the scheme members and employers.
- To ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer.
- To put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.
- To maximise investment returns over the long term within agreed risk tolerances.

6 Risk Management

- 6.1 The PFC has the authority to determine the Fund’s investment objectives and to set and review the long-term high-level investment strategy to ensure these are aligned with the Fund’s specific liability profile and risk.
- 6.2 The risks associated with implementing the strategy have been captured in the Fund’s risk register as detailed below.

RISK REGISTER	RISK MITIGATED	RESIDUAL RISK
Investment (Risk 3)	As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund’s investments.	Amber
Investment (Risk 5)	Fund assets are not sufficient to meet obligations and liabilities as they become payable.	Amber

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Investment (Risk 20)	Failure to act appropriately upon expert advice and/or risk of poor advice.	Green
Investment (Risk 24)	Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

6.3 The Fund’s full risk register can be found on the Fund’s website at the following link: [Fund Risk Register hyperlink](#)

7 Finance & Resources Implications

7.1 All internal costs will be met by existing resources and the cost of the Fund’s Investment Consultants’ Mercer, are included within the 2021/22 budget. Any further financial implications will be included in PFC reports as required.

8 Communication Implications

8.1 None.

9 Legal Implications

9.1 Legal advice will be sought as required.

10 Consultation with Key Advisers

10.1 This paper has been produced in conjunction with the Fund’s Investment Consultants, Mercer and additionally supported by the Fund’s appointed Independent Advisor.

11 Alternative Options Considered

11.1 None

12 Appendix

12.1 Appendix A – Responses to the consultation to the draft Investment Strategy Statement;

12.2 Appendix B – Summary of feedback on consultation for publication on the Fund’s web pages;

12.3 Appendix C - Revised draft Investment Strategy Statement;

12.4 Appendix D – Revised draft Investment Strategy Statement with tracked changes.

Checklist of Key Approvals

Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Yes. Sarah Heywood
Has this report been cleared by Head of Pensions?	Yes. Mark Whitby
Has the Chair of the Pension Fund Committee been consulted?	Yes. Cllr Whelan
Has this report been cleared by Legal Services?	Yes. Fiona McMillan