

**CAMBRIDGESHIRE
PENSION FUND**



PENSION FUND BOARD

Date: 6 July 2018

Report by: HEAD OF PENSIONS

Subject	Investment Strategy Statement
Purpose of the Report	To present the revised Investment Strategy Statement to the Pension Fund Board
Recommendations	That the Pension Fund Board: 1. Note the contents of the report; 2. Makes recommendations where appropriate for the Pension Fund Committee to consider upon the next review.
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1. Purpose of the report

- 1.1 The purpose of this report is to present to the Pension Fund Board with the revised Investment Strategy Statement that was approved by the Pension Fund Committee on 29 March 2018.

2. Background

- 2.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations") came into force on 1 November 2016.
- 2.2. The Regulations set out the requirement for the preparation and publication of the Fund's Investment Strategy Statement (ISS) by no later than 1 April 2017.
- 2.3. The Committee approved the ISS at its meeting on 23 March 2017, however, it was recognised that the time available for consultation was limited due to the delay in the DCLG issuing guidance. Detailed aspects of the ISS have subsequently been reviewed at a series of Investment Information Days (IIDs).
- 2.4. The Fund has participated with fellow ACCESS funds in the joint procurement for passive investment to appoint a new manager in place of the Fund's current provider, State Street. The successful manager, UBS, offers a wide range of passive funds and the

opportunity has been taken to re-assess which funds Cambridgeshire should adopt under the new arrangements.

- 2.5. The changes to the ISS result from the output of the Investment Information Days which Committee and Board members attended during 2017/18, and from changes to the regional equity exposures arising from the new passive arrangements with UBS.

3. Investment Information Days

- 3.1. A series of Investment Information Days have been held during 2017/18 covering all aspects of the Fund's policies detailed in the ISS with presentations from the Fund's Investment Consultants (Mercer), the Fund's Actuary (Hymans) and external fund managers.
- 3.2. The topics of the four days have been-
 - 3.2.1. Investment objectives and beliefs,
 - 3.2.2. Passive or active investing,
 - 3.2.3. Sustainable Responsible investment,
 - 3.2.4. Strategic asset allocation review.
- 3.3. The key outputs and conclusions from the IIDs impacting the ISS are covered in the following sections.

4. Changes to the Strategic Asset Allocation

- 4.1. The IID held in October 2017 focussed on the features of active and passive investing from two perspectives:
 - 4.1.1. Confirming the investment beliefs No 9 and 10:-

9. The Committee favours active management, where there are opportunities for active managers to add value, increasing overall expected return net of fees.

10. Passive strategies provide low cost access to market returns"
 - 4.1.2. Considering how to allocate the Fund's passive investments under the new arrangements with UBS following the joint procurement under the LGPS National Frameworks with fellow ACCESS funds.
- 4.2. The outcome of the day was to confirm that the investment beliefs remain valid and to inform recommendations on passive investment allocation to be formally considered at the November Investment Sub-Committee (ISC) meeting for approval.
- 4.3. At the November meeting, the ISC agreed a new allocation of the Fund's passive equities allocation (23.0%) to a range of equity funds offered by UBS under the new passive arrangements.
- 4.4. The revised allocation includes a division of the passive allocation one-third in smart beta funds and two-thirds in traditional market capitalisation passive funds, the latter with an equal regional split between North America, Europe and Asia. This has resulted in a reduction of the specific UK allocation from 21.0% to 12.0% of the total fund assets, and an increase in the allocation to global funds from 44.0% to 53.0%, primarily because of the new allocation to smart beta funds which are global in nature. A detailed analysis of the new equity allocation is shown in Appendix A.

4.5. The changes to strategic asset allocation table in the ISS are as follows:

Asset class	Target allocation % PREVIOUS	Target allocation % REVISED	Tolerances% UNCHANGED
UK equities	21.0%	12.0%	
Overseas equities	44.0%	53.0%	
Equities	65.0%	65.0%	60.0% - 70.0%
Government Bonds	5.0%	5.0%	
Non-Government Bonds	7.0%	7.0%	
Fixed Income	12.0%	12.0%	9% -15%
Property	10.0%	10.0%	
Private Equity	5.0%	5.0%	
Infrastructure	5.0%	5.0%	
Loans	3.0%	3.0%	
Alternatives	23.0%	23.0%	18.0% - 28.0%
Total target Allocation	100.0%	100.0%	

5. Socially Responsible Investment

5.1. The IID held in November 2017 focussed on Sustainable Responsible Investment with the objectives of:-

5.1.1. Confirming the investment belief No 11:-

11. Responsible Investment including Environmental, Social and Governance are important factors for the sustainability of longer-term investment returns.

5.1.2. Confirming that the detailed statements in the ISS headed:

5.1.2.1. ESG Risks,

5.1.2.2. Environmental, Social and Governance policy

5.1.2.3. Voting rights

5.2. The attendees on the day agreed that the ISS remained appropriate subject to the following additions:

5.2.1. Recognising climate change as specific risk;

5.2.2. Acknowledging that Fund Managers have the resources, research and ability to evaluate stock suitability in regard Responsible Investment. Feedback supported the principle of engagement in preference to disinvestment and that Fund Managers should retain decision making on stocks. However, Fund Managers will be required to improve their Responsible Investment reporting to the ISC. It is proposed that a specific report is received in the July Pension Fund Committee meeting in respect of Fund Managers' Responsible Investment activity.

5.2.3. Whilst the Fund informally adopts the principles of the Stewardship Code, it has not formally signed up to the Code. There was a clear consensus of opinion that the Fund should sign up.

5.2.4. Clarifying how the Fund will interact with the ACCESS pool to implement its engagement and voting policies by inserting the following paragraphs:

Sustainable Responsible Investment Policy (Environmental, Social and Governance)

The Fund is committed to working with the ACCESS Pool Operator and fellow funds in ACCESS to ensure that the Investment Managers appointed to the pool adopt the Fund's SRI policies.

Voting

The Fund is committed to working with the Pool Operator and fellow funds in ACCESS to ensure that the Investment Managers appointed to the pool adopt the Fund's voting policy.

6. Other drafting changes

6.1. The Objectives of the Fund and Investment Beliefs have been linked with a reference to the Funding Strategy Statement.

6.2. Other minor changes have been made to the ISS to update it to the February 2018 position regarding Asset Pooling:-

6.2.1. In the following sentence, "2018" has replaced "2017":-

"The first investments to be pooled in 2018 will be passively managed investments."

6.3. A new graph has been provided to illustrate the linkage of the asset allocation to the key investment risk factors.

6.4. The following sentence updated to reflect the investment in The Cambridge Building Society:-

"Cambridgeshire will not be pooling an allocation to local alternatives currently comprising interests in the Cambridge & Counties Bank and The Cambridge Building Society".

6.5. Consistent use of the terminology Sustainable Responsible Investment that encompasses Environmental, Social and Governance issues.

6.6. A copy of the revised ISS is attached as Appendix B.

7. Future revisions to the Investment Strategy Statement

7.1. The IID that took place on 7 February 2018 provided background for the forthcoming review of the Fund's strategic asset allocation. This effectively covers the remaining investment beliefs in the ISS not covered in the earlier IIDs.

7.2. The review of the strategic asset allocation by the ISC will continue during 2018 and when finalised will be presented to the Committee for approval and the ISS will then be updated accordingly.

8. Relevant Pension Fund Objectives

<i>Objective 1</i> 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.
<i>Objective 3</i> Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
<i>Objective 5</i> Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
<i>Objective 18</i> Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.

9. Finance & Resources Implications

9.1. There are no incremental costs associated the recommendations.

10. Risk Implications

10.1. Risk(s) associated with the proposal:

Risk	Mitigation	Residual Risk
The Fund does not have appropriate policies that comply with the Investment Regulations.	The Fund's Investment Consultant has provided advice.	Amber

10.2. Risk(s) associated with not undertaking the proposal:

Risk	Risk Rating
The Fund may not maintain its published Investment Strategy Statement in line with the Regulations.	Amber

11. Communication Implications

11.1. Policy documents will be updated as appropriate and published on the Fund's website.

12. Legal Implications

12.1. Legal advice will be sought as required.

13. Consultation with Key Advisers

13.1. This paper has been produced in conjunction with the Fund's Investment Consultants, Mercer.

14. Alternative Options Considered

14.1. Included in the paper.

15. Background Papers

15.1. ISC papers on Investment Information Days – September 2017, November 2017 and February 2018. ISC paper on Passive investments – November 2017.

16. Appendices

16.1. Appendix A – Revised Strategic Asset Allocation.

16.2. Appendix B – Revised Investment Strategy Statement.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable.
Will further decisions be required? If so, please outline the timetable here	No.
Is this report proposing an amendment to the budget and/or policy framework?	No.
Has this report been cleared by Head of Pensions?	Mark Whitby – 8 June 2018

Revised equity allocation following transfer to UBS:

Smart beta

Global	RAFI Developed 1000	2.556%
Global	MSCi World Quality	2.556%
Global	Min Vol	2.556%

Market cap

Global	FTSE North America	5.111%
UK	FTSE UK	2.044%
Global	FTSE Europe less UK	3.067%
Global	FTSE Asia excl Japan	3.067%
Global	FTSE Japan	2.044%

<u>Total "passive" holdings/allocation</u>	<u>23.000%</u>
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Equity active allocation

UK	Schroders UK	10.000%
Global	JO Hambro Global Select	19.500%
Global	Dodge & Cox Global Equity	12.500%

<u>Total equity active allocation</u>	<u>42.000%</u>
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<u>Total equity allocation</u>	<u>65.000%</u>
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Total

UK	12.044%
Total Global	<u>52.955%</u>
	<u>65.000%</u>