Item 7

Pension Fund Investment Sub Committee

18 December 2017

Investment Guiding Principles

Recommendation

That the Pension Fund Investment Sub-Committee discuss the proposed investment guiding principles and approve their inclusion as an appendix in the fund's Investment Strategy Statement.

1. Background

1.1 Following the implementation of the LGPS Investment Regulations in 2016, funds were required to replace the Statement of Investment Principles with the Investment Strategy Statement (ISS). Warwickshire implemented this change at the sub-committee meeting in March 2017

1.2 As part of the current changes in asset allocation that are currently in progress the fund will revise the ISS to reflect the new strategic position. As part of this process, officers have used this opportunity to introduce investment guiding principles to the ISS. The aim of introducing guiding principles is to act as aid to members when decision making and as useful information for external service providers to assess product suitability for the fund.

1.3 It is important for sub-committee members to note that these principles are not a set of stringent rules and can be challenged and adapted as appropriate.

2. Investment Guiding Principles

2.1 It is proposed that the fund adopt the following principles:

1. The Pension Fund is a long term vehicle which must be sustainable in generating investment returns to pay pensions for scheme members.

2. It is appropriate to take a long term view when setting the investment strategy though the impact of short term volatility is also considered.

3. Strategic asset allocation is the most important component of decision making as it is here that the optimum risk and return profile is designed and monitored.

4. The Fund's high level investment strategy and asset allocation should be set by using asset liability modelling in conjunction with each actuarial valuation.

5. Appropriate diversification reduces the overall level of dependence on any particular market or asset class and helps manage volatility, particularly in respect of equity markets.

6. Effective governance not only ensures appropriate levels of control over the fund but can add value through correct resourcing and improved decision making.

7. Responsible ownership of companies benefits long term asset owners.

8. A balance of passive and active equity investment will, over the course of a market cycle provide the best mix of performance, diversification and cost.

9. Foreign currency exposure is part of managing a global portfolio of investments. There is no strategic hedging of currency exposure from volatile asset classes such as equities as the fund believes this to be of limited benefit to long term investment returns.

10. Investors are rewarded for illiquidity in private markets. Future liquidity needs must be assessed at each review of asset allocation combined with cash flow projections from the fund actuary.

11. There is a long term risk premium to be earned for investing in equities, credit and property relative to gilts.

12. Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.

13. The performance of any active managers should be assessed over suitably long periods.

14. Staff and members of the Pension Fund Investment Sub-Committee must have the correct level of skills and investment knowledge to understand the level of risk in the investment portfolio.

15. External advice from independent advisors and an investment consultant helps planning, risk management and decision making.

16. Pooling presents an opportunity to access best in class investments at a lower cost. Such opportunities should always be assessed alongside the strategic asset allocation of the fund for suitability.

Background Papers

None

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