

**Open Report on behalf of Andrew Crookham,
Executive Director – Resources**

Report to:	Pensions Committee
Date:	03 October 2019
Subject:	Investment Beliefs Report

Summary:

This report summarises the work undertaken at the Committee training held on 3 September 2019 to create a set of Investment Beliefs and Responsible Investment Beliefs.

Recommendation(s):

That the Committee note the report and:

- 1) Agree the Committee's Investment beliefs; and
- 2) Agree the Committee's Responsible Investment Beliefs.

Background

1. It is considered best practice to have considered and documented the investment beliefs of the Pensions Committee, and also the responsible investment beliefs. These are built into the investment strategy setting for the Fund, and can be used to assist decision making. In addition they can be used to ensure that new members on the Committee understand previous investment decisions taken. It has been a number of years since these were discussed in the Lincolnshire Fund, and they have not previously been formally included within the Investment Strategy Statement (ISS).
2. Given that a strategy review was being undertaken as part of the triennial valuation process, it was therefore considered an appropriate time to renew and revitalise the investment and responsible investment beliefs of the current Committee, and, once agreed, to include them explicitly in the ISS.
3. A survey created by Hymans Robertson, the Fund's Investment Consultant, was circulated to all Committee and Board members over the summer to initiate discussion on the beliefs of the Committee and Board in respect of investments and responsible investment. Paul Potter, Hymans Robertson, then undertook a session with the Committee and Board on 3 September, to discuss the results from the survey. Much discussion was had to draw out the key themes across both areas, and following this, officers have summarised the output to create some broad beliefs across both areas.

4. These are now brought to the Committee for further discussion and agreement. Once the high level beliefs have been agreed, officers will develop them into a framework to share with the Committee, and include within the ISS.

Investment Beliefs

5. The key investment beliefs are shown below, for discussion:
 - The Fund should take no more investment risk than is necessary to have a reasonable chance of achieving its objectives, and only where the Committee believes it will be rewarded over the longer term.
 - Funding and investment strategy are linked; as the funding position improves, the level of investment risk should be reduced.
 - Investing in illiquid assets provides opportunities for enhancing returns, and investing in alternative asset classes helps to diversify the Fund structure.
 - Passive and active management both have roles to play in the Fund's structure; passive to deliver low cost asset class exposure and active to add potential value, understanding that active managers' success should be measured over a reasonable timeframe.
 - Environmental, social and governance (ESG) issues are important to the long term success of the Fund.
 - Although fees and costs matter, it is expected return net of all fees and costs that should be the Committee's focus, however transparency and understanding of costs is important.

Responsible Investment Beliefs

6. The key responsible investment beliefs are shown below, for discussion:
 - Companies with a responsible ESG policy are expected to outperform companies without an ESG policy, over the longer term.
 - The Committee considers that company engagement, rather than disinvestment, would be the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment would be a consideration. Disinvestment on a whole sector basis is not within the Committee's beliefs.
 - Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes.

- The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations should therefore carry more weight than non-financial considerations.
- The Fund's active investment managers should embed the consideration of ESG factors into their investment process and decision making.
- The Fund should collaborate with other investors if it could have a positive impact, and also engage with them and investment managers to better understand ESG risks.

Conclusion

7. The Committee have spent time considering both their investment beliefs and their responsible investment beliefs, to enable officers to draft those listed at paragraphs 5 and 6 above. Once the high level beliefs have been agreed, officers will develop them into a framework to share with the Committee, and include within the ISS.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

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