

ITEM No ...17.....

REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024

REPORT ON: STATEMENT OF INVESTMENT PRINCIPLES REVIEW

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 84-2024

1 PURPOSE OF REPORT

This report reviews Statement of Investment Principles for Tayside Pension Fund.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the information within the report, noting the changes to benchmark in Appendix C effective from 1 April 2024; and to approve the Statements of Investment Principles contained in Appendix 1.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 INTRODUCTION

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 required administering authorities to prepare, maintain and publish a written Statement of Investment Principles (SIP). This written statement has been approved by the Pension Sub-Committee annually since 2000 for Tayside Pension Fund.

These regulations have been replaced by the Local Government Pension Scheme Management and Investment of Funds (Scotland) Regulations 2010 and further amended by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 2016. The requirements for a Statement of Investment Principles are broadly similar but Regulation 12 (3) now requires funds to state the extent to which they comply with guidance given by the Scottish Ministers.

The Scottish Ministers guidance refers to the six revised principles on investment decision making contained within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009). A revised Statement of Investment Principles (Article IV of the minutes of the Superannuation Sub-Committee of the Policy and Resources Committee meeting of the 15 November 2010, Report No 676-2010 refers) review application in accordance with the Myners Principles, with a further revision (Article II of the minutes of the Superannuation Sub-Committee of the Policy and Resources Committee meeting of 27 February 2012, Report No 104-2012 refers).

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

**ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

8 MARCH 2024



STATEMENT OF INVESTMENT PRINCIPLES

MARCH 2024

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1 INTRODUCTION

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles. A Statement of Investment Principles should cover the policy on:

- The types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of the rights (including voting rights) attaching to investments
- Stock lending
- The extent of compliance with the six principles of investment practice set out in CIPFA publication "Investment Decision Making and Disclosure in Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

2 ADMINISTRATION AND GOVERNANCE

Tayside Pension Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. Investment policy and decisions are delegated to the Pension Sub-Committee of the City Governance Committee which comprises 6 elected members from Dundee City Council. The Pension Board, comprising of 4 employer representatives (external to the administering authority) and 4 trade union representatives (representing all types of members) assist the Sub-Committee with securing compliance to the regulations.

Investment decisions are made based on advice from Council Officers and professional external advisers. The Sub-Committee and Pension Board meet quarterly.

3 INVESTMENT ROLES AND RESPONSIBILITIES

The full remit of the Sub-Committee is shown at Appendix A.

4 INVESTMENT OBJECTIVES OF THE FUND

The primary objective of the Tayside Pension Fund is to provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefits basis. There is limited discretion to vary these benefits.

The investment principles of the Fund have been set to ensure that the Fund meets its objective. This document outlines the investment principles governing the investment policy of the Fund.

5 INVESTMENT STRUCTURE, STRATEGY & OBJECTIVES

The Fund's investment policy will be directed to achieving and maintaining a fully funded scheme in keeping with actuarial valuation and where practical, maintain a stable employers contribution rate. There is also a requirement to maintain sufficient cash to meet liabilities as they fall due for payment. The Fund uses a Statement of Investment Beliefs (Appendix D) which has been designed to support the Fund in underpinning the investment decision making processes and also as a reference point for understanding why investment decisions have been, and are, made.

The latest actuarial valuation of the Fund is shown in Appendix B.

The investment objective is to maximise the overall return whilst maintaining a prudent and balanced investment exposure. To achieve its investment objectives, the Fund will utilise the following different types of investments:

Equities, Managed Funds, Unit Trusts, Partnerships, Investment Trusts, Open Ended Investment Companies, Bonds, Underwriting, Property, Stock Lending, Direct Lending, Cash, Commission Recapture and Currency. Derivatives may be used, but only for efficient portfolio management or the reduction of risk. All investments and investment limits will comply with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

6 INVESTMENT MANAGERS

The Fund will employ Investment Managers who are judged most suitable to manage the assets of the Fund. The Fund currently employs a range of managers that have been chosen in light of the overall investment strategy and have benchmarks and targets set to provide a prudent and balanced investment exposure to an acceptable level of investment risk.

The asset allocation, structure, manager mix and investment objectives are detailed in appendix C. These objectives and targets have been set to ensure a prudent and balanced investment exposure, which helps control the level of investment risk. Appendix C details the current strategy.

The performance of these managers is monitored on a quarterly basis.

7 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

A target has been agreed with each Manager which gives the Manager the balance between different types of investments. These provide an efficient balance between risk and return.

The Investment Managers are given full discretion over the choice of individual stocks within agreed parameters and are expected to maintain a diversified portfolio.

8 RISK

In order to achieve its investment objective, the Fund takes investment risk including equity risk, active management and illiquidity risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that objectives will not be met.

The Fund will seek to control risk through proper diversification of investments and Investment Managers. The performance of each manager's portfolio is reported to the Sub-Committee quarterly.

The Fund's current Risk Policy & Strategy reflecting existing practices, with guidance from the CIPFA publication Managing Risk in the Local Government Pension Scheme and from the Pensions Regulator's code of practice for public service pension schemes was approved on 26 June 2023 (Article IV of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee & Pension Board of 26 June 2023, report no 195-2023 refers). This is subject to annual review, and the risk register is reviewed and updated on a quarterly basis.

9 EXPECTED RETURN

Investment Managers will be held accountable for their performance through a regime of performance measurement against targets.

The Benchmark and performance target set for each Manager are intended to ensure that the total fund investment returns achieved are in excess of that assumed in the Actuarial Valuation.

10 REALISATION OF ASSETS

The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy. The

Managers may determine whether or not to sell particular investments and which investments to sell to raise cash as and when required for meeting cash requirements notified to the Manager.

11 **ADVISERS**

Investment Consultant	ISIO Ltd
Corporate Governance	Pensions Investment Research Consultants Ltd (PIRC)
Actuarial	Barnett Waddingham

12 **PERFORMANCE MEASUREMENT**

Quarterly and Annual performance figures are provided by Northern Trust and considered by the Sub-Committee.

13 **CUSTODIAN**

Northern Trust is the sole custodian for the Fund's assets.

14 **AUDITORS**

External Auditors - Audit Scotland
Internal Auditors – Pricewaterhouse Coopers

15 **ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)**

Whilst recognising its over-riding fiduciary duties the fund will continue to encourage its managers to engage on issues with companies in which it holds investment. The managers will be instructed to summarise this engagement activity in their quarterly Investment Reports. The key areas will continue to be Employee Care, Human Rights, Sustainability and the Environment. Review of Approach to Socially Responsible Investing (Article V of the Minute of the Joint Meeting of the Pension Sub-Committee of the Policy and Resources Committee and The Pension Board of 4th June 2018, Report No 194-2018 refers) shows the current Policy on Environmental, Social and Corporate Governance.

In addition, the Fund believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios through time. So, where it is consistent with its fiduciary duty, the Fund would follow the principles below:

- Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.
- Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights and the engagement activity of managers.
- Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment manager engagement.
- Report on activities and progress. A six-monthly report will continue to be prepared for the Sub-Committee.

16 **CORPORATE GOVERNANCE**

The Fund will vote through its Fund Managers on all global security holdings in accordance with the recommendations of its voting consultants. Managers will be advised to use its best endeavours to vote in accordance with its voting guidelines.

17 **CLASS ACTIONS**

Both the Fund and its custodian monitor class actions in relation to any investments it has held. It will participate in these where any additional benefit can be achieved.

18 **COMPLIANCE**

The Pension Sub-Committee will take advice on general investment matters from the Executive Director of Corporate Services and external advisers as appropriate. The Pension Board will assist in securing compliance to regulations.

The Pension Investment Sub-Committee will review this Statement annually or sooner if there is a change in policy in any of the areas covered.

19 **SCOTTISH MINISTERS' GUIDANCE**

The Fund adheres to the six principles within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

INVESTMENT ROLES AND RESPONSIBILITIES**1. Introduction**

The Fund pursues a policy of seeking enhanced returns whilst lowering risk through diversification of both investments and investment managers. In order to achieve these returns the Fund has delegated day to day investment decisions to a number of external investment managers. A management agreement is in place for each Investment Manager, which sets out the relevant benchmark, performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

2. Tayside Pension Fund Sub-Committee is responsible for:

- Setting the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.
- Appointing, reviewing, and assessing the performance of investment managers, investment consultants, custodians and actuaries.
- Ensuring appropriate arrangements are in place for the administration of benefits.
- Ensure appropriate additional voluntary contributions arrangements are in place.
- Ensure adequate audit arrangements are in place.
- Prepare, maintain and publish the following:
 - Governance Compliance Statement.
 - Funding Strategy Statement.
 - Statement of Investment Principles.
 - Environmental, Social and Corporate Governance Policy.
 - Administration Strategy
 - Communications Policy
 - Treasury Policy and Strategy

3. Tayside Pension Fund Pension Board is responsible for:

- to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator in such other matters as the LGPS regulations may specify
- to secure the effective and efficient governance and administration of Tayside Pension Fund

4. The Executive Director of Corporate Services is responsible for:

- governance of the Fund
- implementation of Committee decisions
- committee training

5. The Investment Consultant is responsible for:

- advice on setting investment objectives and strategy
- advice on appropriate investment management structures
- advice on asset classes and investment vehicles
- assistance with investment manager monitoring
- assistance with investment manager selection, retention and termination
- benchmark advice
- advising on the appropriate content of Investment Management and other related agreements.

6. The Investment Managers are responsible for:

- portfolio management including individual decisions on purchase retention and sale of investments
- decisions on corporate actions and corporate governance (proxy voting)
- responsible investment activity including analysis and engagement with companies.

7. The Global Custodian is responsible for:

- safekeeping of assets
- servicing of assets including income collection
- execution of transactions, corporate actions and proxy voting
- record keeping and primary accounting
- securities lending (if authorised)
- cash management
- performance measurement

8. The Actuary is responsible for:

- measurement, monitoring, advice and information relating to the Fund's liabilities and the relationship between its investment assets and liabilities.

APPENDIX B

TAYSIDE MAIN FUND - SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2023

	<u>£bn</u>	<u>£bn</u>
<u>Assets</u>		4.34
<u>Past Service Liabilities</u>		
Active Members	1.71	
Deferred Pensioners	0.54	
Pensioners	<u>1.67</u>	
Value of Scheme Liabilities		<u>3.93</u>
Surplus		<u>0.41</u>
Funding Level (excluding 10% volatility reserve)		<u>110%</u>
	<u>Employers Contributions</u>	
	<u>(% of Payroll)</u>	
Primary Future Service Funding Rate	22.5	
Monetary Adjustment	6.8	
Total	<u>15.7</u>	

APPENDIX C

Tayside Pension Fund - Target Future Asset Allocation		
Asset Class	Current Allocation	Target Allocation
Equities	70%	65%
Fixed Income	18%	13%
Property	12%	12%
Local and Alternative Opportunities	0%	10%

Benchmarks (effective from April 2024)

EQUITIES	FIXED INCOME	PROPERTY	Opportunistic
15.0%: FTSE All Share	15%: SONIA + 5.3%	100%: IPD All Balanced Property Funds Weighted Average Index	100%: 6% p.a. absolute return
19.3%: MSCI ACWI GD	35%: iBoxx Sterling non-gilt index + 0.5%		
31.4%: MSCI ACWI ND			
7.3%: FTSE AW North America			
2.8%: FTSE Developed Europe (Ex UK)	36%: ML Sterling Non-Gilts Index		
1.4%: FTSE Japan			
11.7%: FTSE All World			
0.6%: FTSE Developed Asia Pacific Ex Japan	14%: FTSE Index-Linked Over 5yr Index		
1.2%: FTSE AW Emerging Markets			
9.3%: Solactive L&G ESG Global Markets Index			

Revised benchmarks for individual mandates are developed as required:

Manager	Asset Class	Weighting	Current Benchmark	Performance Target (3yr rolling)
Fidelity	Global Equities (active)	22%	100% MSCI AC World ND Index	+ 2% pa (gross of fees)
Baillie Gifford Global Alpha	Global Equities (active)	12.5%	100% MSCI AC World GD Index	+ 2% pa (gross of fees)
Baillie Gifford UK	UK Equities (active)	7.5%	100% FTSE All Share Index	+ 1.5% pa (gross of fees)
Baillie Gifford Positive Change	Global Equities (active)	1%	100% MSCI AC World GD Index	+ 2% pa (gross of fees)
LGIM	Global Equities (passive)	27%	11% FTSE All Share Index 19% FTSE AW North America 7% FTSE Developed Europe (Ex UK) 4% FTSE AW Japan 30% FTSE All World 2% FTSE Developed Asia Pacific Ex Japan 3% FTSE Emerging Markets 24% Solactive L&G ESG Global Markets Index	+/- 0.5% p.a. (for 2 years out of 3)

Apollo	Multi-Asset Credit	2%	SONIA	+5.3% p.a. (net of fees)
LGIM	Buy and Maintain	4.5%	iBoxx Sterling non-gilt index	+0.5% p.a. (net of fees)
Fidelity	Fixed Income (UK)	6.5%	72% ML Sterling Non-Gilts Index 28% FTSE Index-Linked Over 5 Year Index	+ 0.65% pa (gross of fees)
Schroders	Property (UK)	12%	100% IPD All Balanced Property Funds Weighted Average Index	+ 0.75% pa
Partners Group	Diversified Alternatives	5%	6% p.a. absolute return	N/A
GSAM	Real Estate Credit	<1%	UK CPI + 9%	
Northern Trust	Securities Lending	Circa 70%	N/A	0.026% pa

STATEMENT OF INVESTMENT BELIEFS
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This Statement has been designed to support the Fund in underpinning the investment decision-making process for the future, and act as a reference point for understanding why investment decisions have been, and are, made. This Statement should be viewed in conjunction with the Fund's Statement of Investment Principles, Funding Strategy Statement and Environmental, Social and Governance ("ESG") Policy.

- **There is a fundamental link between funding level and investment strategy**

Tayside Pension Fund exists in order to pay members pension benefits as they fall due, and in order to determine an appropriate investment strategy to meet the level of return required. The Fund thus believe that this fundamental link between funding and investment is crucial, and actuarial input is essential when setting investment strategy.

- **Clearly defined investment objectives are important for success**

Tayside Pension Fund appreciate the need to generate a sufficient level of investment return to meet objectives. However, the Fund also recognises that there are a number of potential investment risks that need to be understood and managed in order to provide an appropriate level of certainty and to ensure there is sufficient capital and liquidity to pay the Fund members' benefits as they fall due. The fund believe that clearly defined investment objectives is key in providing focus in implementing their investment strategy, and in doing so, assisting the Fund meet its long-term goals.

Investment strategy has a relatively long-term horizon in line with the Fund's liability profile

The Fund has a very long investment time horizon as a result of the Fund's liability profile. The Fund believe in applying long term thinking in order to seek and deliver long term sustainable returns, and in this, the Fund may justifiably hold some investments over many years in the beliefs that longer term investments have historically proven to generate more wealth than short term investments; and that investors are rewarded for holding certain illiquid assets and are therefore willing to have an allocation to such assets to take advantage of this illiquidity premium and comfortable, and as a result, the Sub-Committee are comfortable holding an allocation to these less liquid assets as part of a suitably diverse investment portfolio.

Whilst the Fund monitor and manage short term investment performance, the prime focus is on longer term investment horizons of up to 10 years and the investment performance over this longer period, in line with the Fund's long-term investment beliefs.

Strategic Asset allocation is the primary investment decision

Tayside Pension Fund believe that strategic asset allocation is the greatest driver of returns for the Fund and therefore understand that asset allocation is the most important investment decision. Manager and stock selection and portfolio monitoring are highly important but of second order to the strategic asset allocation decision in delivering value for money for all of the stakeholders in the Fund.

Diversification is important for managing risk and also results in more stable investment returns

Tayside Pension Fund believe that diversification across differing classes of assets reduces the volatility of returns and results in a better long-term risk adjusted return, which is to the benefit of all of the stakeholders in the Fund. As a result, the Fund invests across a broad range of asset classes (including, but not limited to equities, bonds, property, as well as less liquid opportunistic investments, as appropriate) and appoints a number of asset managers to reduce manager specific risks.

Risks should be appropriate, and be managed

Tayside Pension Fund acknowledge that in order to achieve the required level of returns required to support the affordability and sustainability of the fund that a certain level of investment risk is

unavoidable, however this risk must be not be unnecessary, but be appropriate and in-line with long term investment objectives.

Equities are expected to generate strong investment returns over the long term

Tayside Pension Fund believe that over the long-term equities will deliver strong investment returns, and as a result the Fund retains a meaningful allocation to equities. The Fund believe that equities will drive total Fund performance and are therefore comfortable holding a material allocation to equities to help drive growth to meet benefit payments.

Active investment management can add value after fees and other costs

Tayside Pension Fund believe that, in certain asset classes, such as equities, carefully selected investment managers can add value, after fees and other costs, through active management. Because of this belief, the majority of the Fund's assets are actively managed. The Fund acknowledge that consistent outperformance is difficult to achieve and therefore dedicate time and effort in selecting and monitoring the performance of their asset managers. The Fund also appoints an investment advisor to provide assistance and guidance.

Fees and costs should be minimised wherever possible

Tayside Pension Fund believe that fees and costs should be minimised wherever possible as they reduce overall investment returns. Fees and other costs are regularly reviewed and renegotiated (as appropriate) to ensure optimal value for money and avoidance of unnecessary costs. The Fund evaluate investment performance net of fees and will only appoint an active manager who they believe can outperform net of fees. The Fund regularly engages with investment managers and undertakes procurement exercises to achieve the most competitive fees on behalf of the Fund.

It is important to invest responsibly

Tayside Pension Fund believe that managers should invest responsibly, incorporating all environmental, social and governance (ESG) factors which could not only have material financial effect on the Fund in terms of fund and its reputation. To ensure incorporation of ESG into investment decision making, the Fund require that all investment managers to be signatories to the United Nations Principals of Responsible Investment. The Fund has an ESG policy which is regularly reviewed, and which outlines a specific provision for the Fund's long-term ambition to completely divest from tobacco stocks, and the Sub-Committee expect the Fund's investment managers to adhere to this approach.

Responsible Stewardship and active engagement with companies is more effective in seeking to initiate change rather than divesting

Tayside Pension Fund is supportive of encouraging positive ESG practices within the companies that it invests in. The Fund tasks their investment managers to engage with companies to encourage positive ESG practices, and to report to the Fund on their engagement in relation to the following key areas of concern:

- Employee Care,
- Human Rights,
- Sustainability and the Environment.

The Fund use an independent voting advisory service, and as part of ongoing monitoring, the Fund requires the investment managers to report on their voting activity, as this reflects the Fund's commitment to encouraging best practice.

Governance and decision making is critical to success and should focus should be on the areas of greatest importance

Tayside Pension Fund seeks to avoid unnecessary complexity, where possible, to reduce costs, free up time and resources, and promotes focus on strategic decision making, such as asset allocation, where the greatest value is expected to be added. Complexity is only introduced to the investment structure where it is clear that it is expected to add value net of cost.

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