Investment Strategy Statement

West Sussex County Council

lgps

Introduction

West Sussex County Council is responsible for administering the West Sussex County Council Pension Fund under the Local Government Pension Scheme (LGPS) Regulations. The Council has a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested and to take proper advice in the execution of this function. It has delegated responsibilities to the Pensions Panel.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy (the Investment Strategy Statement), in accordance with guidance issued from time to time by the Secretary of State. The Investment Strategy Statement is an important tool for the Fund and provides transparency in relation to how Fund investments are managed.

This Statement will be reviewed at least every three years and will be updated to reflect any substantive changes in the interim. The last formal review was at the Pension Panel meeting in July 2018.

Investment strategy and the process for ensuring suitability of investments

When considering its investment strategy it is important to consider:

a) The Regulations require that the Fund maintains as nearly constant employer contribution rates as possible and takes a prudent long term view, and this is reflected in the Funding Strategy Statement.

b) The objective to maintain affordability of the Fund to employers as far as this is reasonable, as set out in the Funding Strategy Statement.

c) The Investment Strategy objective to meet pension liabilities as they fall due, maximising returns while keeping risk within acceptable limits and contribute towards achieving and maintaining full funding.

d) The Pension Panel's investment beliefs as set out in Appendix 1.

When a Fund is in deficit then the focus is on repair. However the objectives when the Fund is at full funding – or in surplus – become harder to define. On the basis of the above, the following objectives are considered appropriate:

a) Reduce risk of deficits emerging to protect against increases in the secondary (deficit contribution) rate.

b) Generate sufficient returns to keep the cost of new benefits accruing reasonable. The future service rate is difficult to manage through an investment strategy but the investment strategy must support the Actuary's funding assumptions.

c) Identify sources of income in order to generate cash as the Fund requires. The Fund is currently cash flow positive but if cash-flow drops then the Fund does not want to be a forced seller of assets to pay benefits.

The Panel have translated their objectives and beliefs into a suitable customised benchmark which is based on advice from the Fund Actuary and Investment Adviser and which sets out the intended long term weighting to various types of investment (or asset classes), such as equities, bonds and property and reflects the Pension Fund's investment strategy.

The benchmark is set using Asset Liability Modelling in order to understand the impact of different investment strategies on the chances of "success" and corresponding downside risks. "Success" here is defined as maintaining a 2/3 or better chance of being fully funded (on an on-going basis) over 20 years.

The Fund's investment strategy has been considered in broad terms – growth assets, income assets and protection assets:

Asset Type	Purpose
Growth	Generate returns in line with equities Provide liquidity for de-risking Keep contributions affordable
Income	Generate a reliable income providing additional cash flows if required Additional yield versus protection assets
Protection	Change value in line with liabilities Protect against movements in interest rates and inflation expectations Provide liquidity for re-risking Keep contributions stable

This strategic allocation is set out in more detail below.

Asset Type	Asset Class	Strategic Allocation	Geography	Currency
Growth	Listed Equity	40.0%	Diversified	Diversified
Growth	Private Equity	0.0%	Diversified	Diversified
Income	Direct property	10.0%	UK	GBP
Income	TBD	10.0%	TBD	TBD
Protection	Bonds	40.0%	Diversified	Diversified

In the context of the table above it should be noted:

- Cash: The Fund has a 0% allocation to cash. However cash is held by the Fund's investment managers within ranges (0-10%) to settle trades and take tactical investment decisions, and working balances are managed to pay benefits, cover invoices and fund private equity and direct property acquisitions.

- Private Equity: The Fund's allocation to private equity is being wound down and therefore not within the strategic allocation.

- Income: The Pensions Panel have agreed a further 10% allocation to income assets. However it will take a period to determine the appropriate asset class to invest in and a period of time to implement the investment (over three years, depending on the assets considered). An interim solution may therefore be appropriate.

- Tactical Asset Allocation: The Pension Fund has 85% of its assets with two large balanced managers. This means that the managers can hold a mix of equities, bonds and cash and move between the different asset classes (within ranges) dependent on their view of the market.

The Panel had previously agreed a mechanism for reducing the level of investment risk as the funding position improved. The de-risking strategy has now been fully applied and the move from growth assets to protection assets should reduce year on year volatility and reduce the changes of poorer funding outcomes over the medium / long term. However:

- If the funding level falls back below 85%, the Pensions Panel will consider increasing the proportion of growth assets (to no more than 80% of the portfolio) and/or raising the contribution rate target. Therefore there is a need for 20% of the Protection assets to be very liquid.

- If the funding level continues to increase, the Fund may be able to reduce contributions in a controlled manner or build further prudence into the funding assumptions to allow further certainty of contributions in the future. Further modelling work will be required if the funding level continued to rise beyond 120%.

Social, environmental and corporate governance policy

The Pensions Panel is mindful of its legal duty to obtain the best possible return on the investments of the Pension Fund it administers, consistent with an appropriate risk profile. However, good practice in terms of social, environmental and corporate governance issues is likely to impact positively on companies' financial performance. At the present time the Panel does not take into account non-financial factors when selecting, retaining, or realising its investments.

The Pensions Panel has directed the fund managers, in acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of social, environmental and governance issues on the performance of a company when considering the acquisition, retention or realisation of investments for the Fund. In this regard, the Pensions Panel has adopted the fund managers' standard socially responsible investment policies. These policies are discussed with the fund managers from time to time and fund managers report quarterly to the Pensions Panel on corporate governance activity.

The investment managers have adopted the Institutional Shareholder Committee's (ISC's) Statement of Principles on the responsibilities of institutional shareholders and agents which aims to secure value for beneficiaries over the longer term through engagement. Shareholders should set out:

- Their policy on how they will discharge their responsibilities,
- Clarifying the priorities attached to particular issues and when they will take action,
- Monitor the performance of, and establish, where necessary, a regular dialogue with investee companies; and
- Intervene where necessary and evaluate the impact of their engagement and report back to the Fund.

In addition the Fund's investment managers have signed up to the United Nations Principles of Responsible Investment (UNPRI) which has been set up by the United Nations Environment Programme Finance Initiative (UNEP FI) to encouraged asset owners and asset managers to incorporate environmental, social and governance (ESG) issues into investment analysis and decision making, be active owners, seek disclosure of ESG issues and promote the principles within the industry.

Details of the investment managers' governance principles can be found on their websites.

Policy on the exercise of rights

The Pensions Panel wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles, which in turn will feed through into good performance. The Fund is committed to reviewing its position on becoming a signatory of the FRC UK Stewardship Code as Asset Owners.

The Fund's investment managers are all signatories to the FRC UK Stewardship Code as Asset Managers and in practice, managers have delegated authority to exercise the Fund's voting rights according to agreed guidelines, set out below:

Issue	Policy
General	Continuing dialogue with companies Vote on all UK issues
Uncontroversial Issues	Vote with management
Executive Remuneration - Basic Pay	Must be viable and based on market rate
Executive Remuneration - Incentive Pay	Must be viable and based on above average returns to shareholders
Non-Executive Directors	Vote against re-appointment if failed to perform their duties
Employment contracts	One year
Political donations	Vote against
Shareholder incentive schemes	Each proposal judged on its merits.

Fund managers report to the Panel quarterly on their voting activity and officers monitor the percentage of domestic and foreign shareholders meetings voted at monthly, and this is reported in the Annual Report.

Approach to Asset Pooling

The Fund is part of the ACCESS Pool (A Collaboration of Central Eastern and Southern Shires), and is committed to pooling to comply with the Government criteria published in November 2015.

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable pool investment solutions become available, based on the following considerations:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund

- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

The Fund intends to keep its property allocation and private equity investments outside of the formal pooling arrangement proposed on the basis of ongoing value for money, large one-off transition costs and illiquidity of these assets.

Risk Measurement and management

The Panel is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

The principal risks affecting the Fund are set out in Appendix 1 below, along with the mitigations and the contingency plans that are in place.

The Pensions Panel maintains a full risk register to identify key risks, consider and assess the significance, likelihood of occurrence and potential impact of the risk as part of its Business Plan.

Advice taken

In compliance with Guidance on Preparing and Maintaining an Investment Strategy Statement, this document has been prepared after taking appropriate advice from Hymans and Mercers.

Appendix 1

Investment Beliefs

Governance

A well run fund offers a number of benefits, most notably improving funding outcomes.

- The Fund's investment strategy should be reviewed in conjunction with each actuarial valuation.
- The Panel has a preference for avoiding a large number of separate manager relationships.
- Fees and costs incurred within investment manager mandates are important though the emphasis is on achieving the best returns for the Fund net of fees.
- Active management of the Fund's investments is expected to provide higher returns net of fees to the Fund over the long term than passive (indextracking) investment.
- The performance of active managers should be assessed over suitably long periods.

Structural

There exists a relationship between the level of risk taken and the rate of expected investment return.

- As the Fund remains open to new members and employer covenants are generally strong, it is appropriate to take a long term view when setting the investment strategy.
- There is expected to be a long term risk premium to be earned from investing in equities, credit, property and illiquid assets, relative to government bonds.
- Illiquid investments should be considered where an attractive premium return is expected to be available, though the total allocation within the Fund will be limited.
- Local investments should be considered, though the risks and expected returns should be commensurate with comparable investment opportunities elsewhere.

Strategic

Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.

- The level of risk within the investment strategy should be considered in conjunction with the funding position of the Fund. Different levels of risk may be taken at different funding levels.
- The Fund should take investment risk in order to meet its objective of stable and affordable contribution rates for employers.

- The Panel should not take short term tactical asset allocation positions relative to the strategic asset allocation.
- The Panel do not expect the Fund's managers to take substantial short term tactical asset allocation positions relative to their benchmarks. Mandates will be defined accordingly.

Responsible Investment

Environmental, social and governance (ESG) considerations should all be taken into account when making and holding investments.

- Well managed companies will produce superior returns for the Fund over the long term.
- The Fund should exercise its voting rights as fully as possible.
- The Fund should engage with managers on environmental, social and governance issues relating to its investments.
- Corporate engagement is preferred to exclusion of stocks from the Fund.