

# LGPS guidance: preparing and maintaining an Investment Strategy Statement



**Iain Campbell**  
Partner – Investment DB

The government has published three pieces of statutory guidance on the implementation of the Fit for the Future reforms. These cover pooling, the investment strategy statement (ISS) and governance. The guidance provides long-awaited detail on how funds and pools should be implementing the reforms. We provide a summary of the [ISS guidance](#) below.

## ISS

### **The roles of the administering authority and the asset pool**

Administering Authorities (AAs) must set their investment strategy to achieve long-term returns to pay pensions when they fall due and have considered advice from their pool in doing so.

Pools exist to implement their partner funds' investment strategies. The pool should have the expertise required to deliver the strategy effectively.

The AA should hold the pool Board accountable for delivery and should, working with the pool Board, ensure that their pool is properly resourced to deliver the strategy.

Several important roles and their responsibilities within the LGPS are clarified, including the Senior Officer, independent person, Local Pensions Board, Pension Committee and the pool.

### **High-level investment objectives**

AAs must set out their high-level objectives on return, risk, cashflow and local investment. Some examples of what these could look like are provided. They must have regard to the Funding Strategy Statement.

When setting these objectives, AAs should consider relevant factors including:

- risk appetite (this is the AA's decision, based on advice from the pool and after taking account of the fund actuary's views, and should consider impact on employers)
- fund maturity
- risk management (AAs set the overall approach to risk management; pools deal with operations and implementation).

The following topics should not be considered as part of setting high-level objectives or covered in the ISS, as they are decisions for the pool:

- views on selection of asset managers, or individual asset managers, or how asset managers are combined within an asset class
- views on geographical zones of investment, except as they relate to the high-level objective on local investment, or exposure targets
- investment decisions on individual holdings
- style of investment management, such as active and passive management.

### **Strategic Asset Allocation (SAA)**

AAs must set out their SAA in the ISS, using the table of nine asset classes provided by government in the original Fit for the Future consultation.

The SAA should be a product of the high-level objectives and must be reviewed each valuation period, within 18 months of the valuation date.

A rationale for the SAA should be provided, along with the associated risks.

Implementation choices, such as active vs passive, must not be included in the SAA.

Operational cash may be excluded from the SAA, but funds should keep pools informed of how much they need to meet liability payments.

### **Responsible Investment (RI)**

AAs are expected to be particularly transparent on their approach to RI and maintain the highest standards in managing financial risk.

AAs must set out their approach to RI. Environmental, Social and Governance (ESG) considerations may be financially material to risk and return, as well as wider financial impacts and outcomes. The approach must be reviewed every valuation period.

The AA's primary obligation is to act in the best financial interests of the fund. However, AAs may also take non-financial considerations into account, if this would not involve risk of significant financial detriment to the fund, and if they have good reason to think members would support their decision.

AAs may include a preference for investments that have a positive non-financial impact as well as an acceptable financial return. They may set different return requirements for these investments (as long as they are not expected to prevent the fund achieving the required rates of return) such as a minimum hurdle rate.

AAs should take account of employers' and members' views. However, AAs should also exercise caution against undue influence from campaign groups whose positions may not reflect the views of members or align with the fund's fiduciary responsibilities.

Pools and AAs should work together to ensure that the RI policy meets the AA's requirements, does not conflict with the AA's other objectives, and is deliverable. The guidance states that a pool-wide RI policy can be a useful

way of achieving this outcome. Partner AAs and their pool should aim to agree on common priorities and use the collective scale of the pool to influence companies and sectors.

Where all partner funds' RI strategies cannot be aligned, pools and AAs should form a limited number of groups of partner funds, each of which has an aligned approach. The pool should develop an appropriate RI option for each group.

Where there is a conflict regarding the pool's ability to deliver an AA's RI policy, the pool should explain what elements of the policy it is not possible to implement and the reasons. The pool should support the AA to understand how the investment strategy could be adjusted to make it deliverable. If AAs are still unable to reach a satisfactory position with their pool, they should escalate their concerns via the appropriate arena for contributing shareholder and client views, as agreed in the pool's governance arrangements.

AAs should set out their objectives on stewardship in their ISS, while being as aligned to the pool and pooling partners as possible. Stewardship activities are delivered by the pool. Conflicts should be resolved through dialogue. If a pool would have to represent contradictory opinions to the same company, it is up to the pool to decide the priorities, based on fiduciary duty.

### Local investment

AAs must set out their approach to local investment, taking account of advice from their pool. AAs should work with their pool and partner funds to establish areas of alignment and investment opportunity on which to focus. The approach should be high level, and cover target area, returns, risk and impact.

Local investment is defined as "investment in, or for the benefit of persons living or working in (a) the scheme manager's area, or (b) the areas of the other scheme managers participating in the same pool as the scheme manager." This means that:

- the target area can be no wider than the pool – it must not extend to the whole of the UK
- "for the benefit of persons living or working in" an area is intended to include investments in the surrounding region as well as the geographic area of the AA itself.

AAs must take account of local priorities of strategic authorities and Local Growth Plans, where they exist. Where such plans don't exist, AAs must engage with strategic authorities to understand local growth priorities.

If employers in the fund include local authorities in neighbouring Strategic Authorities, the AA must consider the local growth priorities of all relevant Strategic Authority areas.

Funds can accept a "different approach towards expected return" for local investments, such as a minimum hurdle rate of return. This roughly translates into funds being able to accept a lower level of risk-adjusted return; however, long-term risk-adjusted return should remain the primary goal.

AAs may set target impacts to be achieved. These should be high-level goals, such as the promotion of beneficial economic, social and environmental impacts in the target area. AAs can also set out more detail on the specific benefits they wish to see, such as job creation, local business development, community wellbeing or reduced pollution.

AAs must set a % target range of assets to be invested locally. Again, this must be compatible with the primary duty of paying pensions, i.e. the target level must not be so high that it is not possible to fulfil with suitable investment opportunities.

Pools decide whether to invest in projects. Before the pool invests in any projects that are, or have been, politically controversial in an AA's local area, the pool should seek information from the authority about the issues surrounding the investment project and the authority's view of the investment and take this into consideration.

If there are insufficient opportunities to deliver an AA's local investment objectives, this may mean the target cannot be achieved. Pools should never invest in unsuitable assets purely to meet the target range set by the AA.

### **Key considerations for funds**

To summarise the practical implications:

- Ensure the ISS is explicitly shaped around achieving long-term returns sufficient to meet pension payments, considering the timing and value of liabilities across short, medium and long time horizons.
- Understand and maintain the clear separation of roles between the AA and the pool. AAs retain responsibility for setting investment strategy and high-level objectives, while pools are responsible for implementing that strategy.
- When setting out the objectives for return, risk, cashflow and local investment, as well as the approach to maintaining stability and affordability of employer contributions, ensure these are evidence-based and aligned with actuarial advice.
- The ISS must explain the rationale for the SAA and how it supports long-term funding objectives.
- High-level RI objectives, including environmental, social, and governance considerations, must be defined, and AAs must ensure these are reflected in the pool's implementation. This will require collaboration with the pool and partner funds to understand where views are incompatible.
- Articulate objectives relating to local investment, ensuring these are framed within fiduciary and prudential principles rather than political or non-financial motivations.

London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | [www.hymans.co.uk](http://www.hymans.co.uk)

This communication has been compiled by Hymans Robertson LLP® (HR) as a general information summary and is based on its understanding of events as at the date of publication, which may be subject to change. It is not to be relied upon for investment or financial decisions and is not a substitute for professional advice (including for legal, investment or tax advice) on specific circumstances. HR accepts no liability for errors or omissions or reliance on any statement or opinion. Where we have relied upon data provided by third parties, reasonable care has been taken to assess its accuracy however we provide no guarantee and accept no liability in respect of any errors made by any third party.

Hymans Robertson LLP is a limited liability partnership registered in England and Wales with registered number OC310282. Authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.