

Sixty second summary

Question time for your investment objectives and beliefs

Key messages:

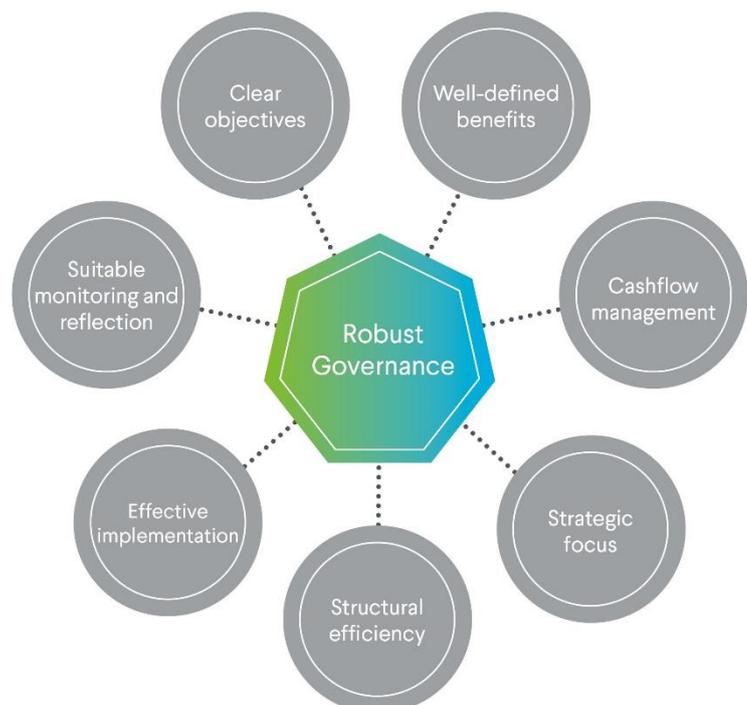
- Well governed pension funds have several common attributes. These include clear and quantifiable investment objectives, well defined investment beliefs and the ability to prioritise.
- Pension Committees should revisit their Funds' objectives to ensure they remain appropriate given their latest funding position and maturity profile.
- Investment beliefs should also be revisited. Checks should take place to confirm the beliefs are aligned to the Committee's latest thinking and are reflected in the Fund's investment arrangements.

Setting out your priorities

English and Welsh LGPS funds are now in their 2019 valuation process. On the back of the strong asset returns over the three-year valuation period, funds may potentially see changes to both employer contribution rates and maturity profile. These changes have potential implications for funds' investment arrangements. When considering what these implications might be, it is important that Committees take time to consider what "success" looks like for them and the key areas to focus on to help achieve this success and, just as importantly, maintain this success.

We have set out the key areas in relation to the investment governance that we believe funds should focus on to achieve success (chart to the right - it is worth noting that we have excluded an explicit reference to Responsible Investment, as this sits across each area). Evidence shows that well-governed pension funds prioritise these areas to achieve superior outcomes, with objectives and beliefs being the key starting points.

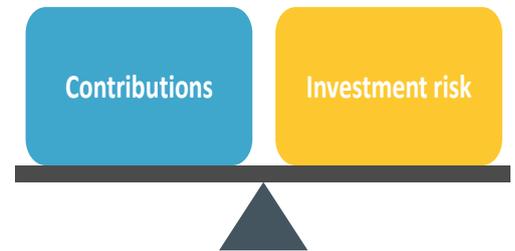
In this 60 second summary we explore key areas to consider under **Objectives** and **Beliefs** including setting a number of questions that Committees should be asking themselves. We will discuss the other aspects shown in the chart in future 60 second summaries.



Objectives

Well governed and successful pension funds have clarity on what success looks like for them i.e. they tend to have well defined objectives and these objectives are used to drive their agendas and decision-making processes.

As the actuarial valuation year kicks-off, we encourage Committees to think about their, and their employers', objectives. For open, long term secure employers, we encourage thought be given to what success looks like e.g. what is an affordable contribution rate and what level of investment risk is needed to either achieve or to sustain this rate with a high level of certainty. For mature employers, such as those closing to new entrants, the focus is likely to be on how they can exit the LGPS in an orderly basis, with a desire for lower funding volatility as the day of cessation approaches.



Key questions to address include:

- Do you have clear and quantifiable investment and funding objectives? How are you assessing risk?
- What is an affordable & sustainable target for contributions and what investment strategy can achieve it?
- How diverse are your employers' objectives & profiles? Is this reflected in your investment strategy?

Investment beliefs

Beliefs are, by definition, unique to each Pension Committee. They are the way in which a Committee (explicitly or implicitly) translate its objectives into its actual investment arrangements. All Committees have investment beliefs, it is just that not all of them have taken time, as a group, to discuss and set out what they are and why they have them.

Having a well-defined set of investment beliefs offers several advantages, including giving greater clarity of why each mandate is held and the strategic role it performs in a Fund's arrangements. It also supports long-term thinking and consistency in decision making across Pension Committees.

To date funds' belief statements have focused typically on core investment activities. However over recent years we have seen the concept evolve e.g. several funds have set out a defined set of Responsible Investment beliefs. We expect this evolution to continue, potentially into non-investment areas such as administration.

Key questions to address include:

- Do your current investment beliefs remain valid? Are there any missing from your existing list?
- Does your investment portfolio reflect your beliefs? How and when was this last tested?
- Is there scope for your belief statement to look beyond investments?

Summary

Clear and quantifiable objectives and well-defined beliefs are core pillars of well governed pension schemes. The 2019 valuation provides the ideal opportunity for Committees to revisit their existing objectives and beliefs to ensure they remain appropriate and to test their Fund's position relative to them, all of which will help achieve future success. Please speak to your Hymans Robertson consultant for further information.