

Report for: *INFORMATION*



Contains Confidential or Exempt Information	<i>NO - Part I</i>
Title	The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
Responsible Officer(s)	Nick Greenwood, Pension Fund Manager
Contact officer, job title and phone number	Nick Greenwood Pension Fund Manager 01628 796701
Member reporting	N/A
For Consideration By	Berkshire Pension Fund and Pension Fund Advisory Panels
Date to be Considered	7 November 2016
Implementation Date if Not Called In	N/A
Affected Wards	N/A

REPORT SUMMARY

1. This report summarises the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Members are requested to note these regulations and their impact on the management of the Pension Fund.

If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. These regulations are a statutory requirement	1 November 2016 (Implementation Date)

1. DETAILS OF RECOMMENDATIONS

2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 These are statutory regulations which the Fund must comply with.

3 KEY IMPLICATIONS

3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 were laid before Parliament on 23rd September 2016 and came into force on 1 November 2016. The main changes to the previous regulations are:

- 3.1.1 The removal of statutory limits for investment in types of investments
- 3.1.2 The introduction of a requirement to publish an Investment Strategy Statement by 1 April 2017
- 3.1.3 The addition of a power for Secretary of State to intervene with the Fund's Investment Strategy

3.2 The salient sections are:

- 3.2.1 Section 5 - The Fund may only borrow for up to 90 days for the purpose of paying benefits or to facilitate changes between "different types of investment". This is no change from the previous regulations.
- 3.2.2 Section 7 (new regulation) – The administering authority to formulate and publish an Investment Strategy Statement by 1 April 2017: The Investment Strategy must be in accordance with guidance issued from time to time by the Secretary of State and must include:
 - 3.2.2.1 A requirement to invest fund money in a wide variety of instruments;
 - 3.2.2.2 The authority's assessment of the suitability of particular investments and types of investments;
 - 3.2.2.3 The authority's approach to risk, including the ways in which risks are to be assessed and managed;
 - 3.2.2.4 The authority's approach to pooling investments, including the use of collective investment vehicles;
 - 3.2.2.5 The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, de-selection, retention and realisation of investments; and
 - 3.2.2.6 The authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 3.2.2.7 In addition the statement must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. The Panel agreed such limits at its meeting on 11 April 2016 (Investments – Asset Class Limits) and they are appended to this paper at Annex 1.

- 3.2.3 Officers will prepare a draft Investment Strategy Statement for review by the Investment Working Group for submission to Panel at its January 2017 meeting.
- 3.2.4 Section 8 (new regulation) – Gives the Secretary of State to intervene if he is satisfied that the authority is failing to act in accordance with guidance issued under Regulation 7.
- 3.2.5 Section 10 (new regulation) allows authorities to invest in collective schemes approved by the Treasury. This is the section that effectively enacts LGPS Investment Pooling.

4. FINANCIAL DETAILS

Financial impact on the budget

- 4.1 None

5. LEGAL IMPLICATIONS

- 5.1 The LGPS (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016.

6. VALUE FOR MONEY

- 6.1 N/A

7. SUSTAINABILITY IMPACT APPRAISAL

- 7.1 None

8. RISK MANAGEMENT

- 8.1 N/A

9. LINKS TO STRATEGIC OBJECTIVES

- 9.1 None

10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION

- 10.1 N/A

11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS

- 11.1 None

12. PROPERTY AND ASSETS

- 12.1 None.

13. ANY OTHER IMPLICATIONS

13.1 None

14. CONSULTATION

14.1 N/A

15. TIMETABLE FOR IMPLEMENTATION

15.1 The regulations came into force on 1 November 2016

16. APPENDICES

Attached

17. BACKGROUND INFORMATION

- The LGPS (Management and Investment of Funds) Regulations 2016.

Annex 1 – Agreed Asset Class Limits (11 April 2016)

Asset Class	Current %	Proposed Max %	Single Investment Limit % (of fund)
Bonds	14.5	35	n/a
“Conventional” Gilts	0.0	25	25% in any single issue
“Index-Linked” Gilts	1.4	25	25% in any single issue
Investment Grade Bonds	0.0	25	2% in any single issue
Non-investment grade bonds (“High Yield”)	0.0	10	0.5% in any single issue or 5% in any single fund
Private Fixed Interest	9.6	20	5% in any single fund
Convertible Bonds	3.5	10	5% in any single fund
Equities	43.6	60	n/a
Developed World Listed Equities	21.6	40	5% in any single company
Emerging & Frontier Market Equities	11.7	25	5% in any single fund
Private Equity	10.3	15	5% in any single fund 0.5% in any single co-investment
Absolute Return (“Hedge Funds”)	18.4	20*	2.5% in any single fund
Infrastructure	4.6	15	n/a
Global Infrastructure Funds	4.6	10	2.5% in any single fund
UK Infrastructure	0	5	5% in any single fund
Commodities	3.2	5	n/a
Commodity funds	2.1	3	3% in any single fund
Single Commodity Exchange Traded Funds	1.1	2	2% in any single commodity
Property	11.3	20	n/a

UK Funds	3.9	5	5% in any single fund of funds
Global Funds	7.1	10	10% in any single fund of funds
Private Rented Residential	0.3	5	3% in any single development
Cash	6.0	15	2% in any single “money fund”

- *Panel are requested to note that a proposal to reduce this limit to 5% is on the Agenda for this meeting*

Annex 2

Table of Limits on Investments

(Regulation 14(1) Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 (now superseded))

<i>Investment</i>	<i>Column 1 Limits under regulation 14(2)</i>	<i>Column 2 Increased limits under regulation 14(3)</i>
1. Any single sub-underwriting contract	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	30%
4. The sum of— all loans (but see paragraph 1 below); and any deposits with— any local authority; or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%	—
5. All investments in unlisted securities of	10%	15%

companies.		
6. Any single holding (but see paragraphs 2 and 3 below).	10%	—
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	—
8. All sub-underwriting contracts.	15%	—
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below).	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%	35%
11. All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 3 below).	25%	35%
12. Any single insurance contract.	25%	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%