

Brunel Pension Partnership

Proposal for asset pooling in the LGPS



Annex Number: 08

Document: Investment Principles

Template Questions Addressed:

B4. The shared objectives for the pool and any policies that are to be agreed between participants.

c) If available please attach as an ANNEX any draft or agreed policies already in place.

B6. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.

a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.

Investment Principles

1.0 Background

The beliefs were drafted in consultation with all participating funds and are informed by the pre-existing investment beliefs within the underlying funds.

The beliefs are designed to:

- capture the ambitions of how the partnership will operate on a day to day basis
- clearly demonstrate compliance with the spirit of the Department for Communities and Local Government's Local Government Pension Scheme: Investment Reform Criteria and Guidance
- demonstrate the strength and competence of the Brunel Partnership
- support funds' investment strategy statements
- be commensurate with the expectations of the asset pool of its size

2.0 What do they mean in practice?

The primary objective of the Brunel Pension Partnership is to enable each fund to deliver its fiduciary duty, to act in the best long-term interests of their members. This fiduciary duty is paramount and all other principles are predicated on this principle. For example although cost effectiveness is a principle, it is subordinate to fulfilling our fiduciary duty. This was one of the main arguments used to rebuff the Government's thinking that the low cost passive across the fund was an optimal solution. We have placed this objective above all principles.

The principles will assist in the design of fund structure and set the framework for the requirements of fund selection, monitoring and reporting. They can be applied to all asset classes, although the detail of operation will vary by asset class.

None of the principles will inhibit the delivery of each fund's investment strategy and do not impose any restrictions on type, nature of companies/assets held within the Portfolios. For example, they do not require any form of dis-investment from fossil fuels, tobacco or such like.

What they do, is set an expectation that the partnership will seek to engage (through its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns of the medium to long term.

For application in infrastructure, they assist in setting out the framework for selection of future investments, which will be on the basis of meeting the funds' risk, financial and governance best practice targets. In doing so, the principles can be used to communicate to beneficiaries with the aim of allaying fears on inappropriate government interference.

The principles will require managers with equities to vote their shares in line with good governance principles, but not to be activist investors. They do require managers to consider the risks of where companies are not managing issues such as executive remuneration, supply chain, labour rights or community relations where these have the potential to have a financial impact on the fund.

The principles do not require disinvestment, neither do they require an emphasis on specific stocks relating to sustainability e.g. low carbon. However, the Portfolio structure will accommodate the needs of those funds who wish to have a stronger thematic exposure to such issues.

Brunel Pension Partnership Investment Principles

The primary objective of the Brunel Pension Partnership is to enable each fund to deliver its fiduciary duty to act in the best long-term interests of their members.

The purpose of the Brunel Pension Partnership Investment Principles is to provide the framework for the fund structure, operations, manager selection, monitoring and reporting. The principles are also designed to meet the Department for Communities and Local Government's Local Government Pension Scheme: Investment Reform Criteria and Guidance and the requirements and expectations of Financial Conduct Authority. They can be applied to all asset classes, although the detail of operation will vary by asset class.

The principles do not impose any restrictions on type, nature of companies or assets held within the Portfolios. The principles do place an expectation that recognised best practice standards in governance, risk management, stewardship and value for money will be delivered.

The principles are designed to ensure the effective and efficient delivery of each fund's investment strategy and are commensurate with the size of the combined asset pool. It is anticipated that the principles will support each fund in the delivery of their investment strategy statements.

Principle in brief	Principle in full	Principle in Practice
Long term investors	We are long term investors: we implement our funds investment strategies that require productive assets that contribute to economic activity, such as equities, bonds and real assets. This may include the delegated responsibility to provide sustainable and sufficient return on their assets.	This principle is about applying long-term thinking to the decision making process. It does not, however prohibit the use of tactical decision making or products which trade more regularly – where the use of the instrument or fund will benefit the fund in the long term.
Responsible investors	We are responsible investors: we believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.	<p>The new investment regulations have been clear that funds will need to be clear on their policy on matters relating to the consideration of environmental, social and governance risks.</p> <p>As clarified by the Law Commission, companies who fail to manage all material financial risks including, but not limited to, poorly managed suppliers, human resources or cause environment degradation will</p>

		<p>impact long term sustainability of financial returns and is likely to be reflected in asset prices in due course.</p> <p>Responsible investment is about the consideration of all material financial risks to long term growth.</p>
Best practice governance	We adopt best practice collective governance with appropriate oversight, prioritisation, delegation and decision making at the right level, and clear accountability.	Good governance makes for efficient and effective fund management and we aim to demonstrate best practice as delivery of our fiduciary duty.
Decisions informed through experts and knowledgeable officers and committee	We make our decisions based on extensive expertise including trained and insightful operations' governance members, experienced and professional officers and high quality, knowledgeable advisors.	Ensuring appropriate skills and knowledge is critical for funds to have complete confidence in us to deliver their investment strategy needs and to maintain our authorisation requirements.
Evidence and research at heart of investments	We take an evidence and research based approach to investment: continually learning and reappraising from academic research, investment professionals, and our peers, and seek continual development in our understanding of investment.	Clear evidence based decision making and ensuring our knowledge is up to date will ensure the funds' needs are met quickly and efficiently.
Leadership and innovation	We are prepared to be innovative and demonstrate thought leadership in collective investment, within the requirement of prudence and our joint fiduciary duty.	We will work and innovate with other funds, pools and the market to create cost effective solutions needed by the pool and its funds.
Right risk for right return	We will make our collective investments work as hard as possible to meet our funds' objectives: we will provide the right structure of Portfolios and managers within asset classes. While we take account of market and economic levels in our decision making, we will avoid making decisions on purely a short term basis.	It is essential that the pool options are flexible enough to meet all the investment needs of the fund – this includes both risk and return objectives.
Full risk evaluation	We will be comprehensive in our consideration of our funds' risks assessed on their liabilities and contributions; consider financial and non-financial risk as appropriate; offer a pooled structure to accommodate the need to diversify risk, but also recognise the limits of that diversification – as long term investors we accept that our investment success depends substantially on the sustainable growth of the economy.	Robust risk management is critical for funds to have complete confidence in us to deliver their investment strategy needs and to maintain our authorisation requirements.

Responsible stewardship	We will enable our funds' to exercise responsible stewardship of the assets they hold, and act as a collective responsible voice in the broader investment community.	Our compliance statement to the UK Stewardship Code will set out how we deliver the requirements of the code as part of our regulatory requirements.
Cost effective solutions	We will seek the most cost-effective solutions to achieving our funds' objectives and implementing these principles collectively: we recognise the impact of costs on the Funds, but we are prepared to pay for active management and other services when we believe that the costs incurred are likely to be justified by the benefits. We will seek to gain leverage from our collective status through reduction in fees and avoidance of cost through increased resilience and sharing our peoples' strengths, knowledge and expertise.	To meet the needs of the funds efficiently is core purpose of the pool.
Transparent and accountable	We believe in the importance of being transparent and accountable, to ensure correct decisions are taken and to minimise risk. This applies both in our own operations, those we work with, and our investments	Being transparent and accountable to the fund's we serve is essential for them and their beneficiaries to have complete confidence in us to deliver their investment strategy needs.
Collaborate	We will collaborate with others whenever possible, to share ideas and best practice; to improve effectiveness and to minimise costs.	We will work and collaborate with other funds, pools and the market to create cost effective solutions needed by the pool and its funds.