

Sixty second summary

Effective implementation, monitoring and reflection

Key messages

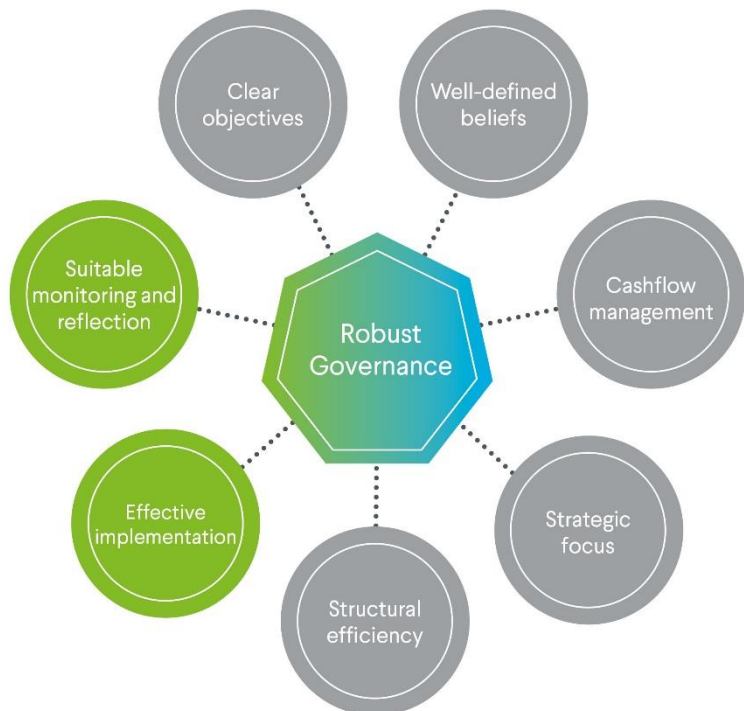
- Engagement with solutions providers, particularly the LGPS pools, is vital to effectively implement investment strategy and achieve better outcomes
- Having clear objectives and risk requirements for each element of your investment strategy will help the engagement process
- By openly engaging with key stakeholders as part of any monitoring process you can help clarify roles and responsibilities, identify information requirements and use this as an opportunity to reflect and benefit as a learning organisation

A time for reflection

As the valuation year for the LGPS in England and Wales comes to a close, and the preparation work begins in Scotland and Northern Ireland, we focus on the final two areas of our investment governance framework below. We believe this framework is helpful in highlighting key areas to focus on to achieve and maintain success, and the implementation and monitoring stages can have a significant impact on the outcomes for your Fund.

In previous 60 Second Summaries, we first identified [clear investment objectives and well-defined beliefs](#) as core elements of the framework to assess investment risk and to plan your investment arrangements. We've discussed [strategic focus and cash flow management](#) as further areas of importance for long- and short-term sustainability in particular the need to balance contributions and investment risk. We have also discussed [structural efficiency](#) looking at equity implementation and the integration of sustainability and ESG factors.

In this 60 second summary we highlight both [effective implementation and monitoring and reflection](#). The landscape of the LGPS has changed in recent years as a result of market developments but also structural reforms in England and Wales. This has significant implications for both the way in which LGPS funds are invested but also the way in which investments are monitoring and how this reflect on the ongoing governance of investment arrangements.



Engagement and implementation

While setting strategic allocations is likely to have the biggest impact on long term outcomes, how an investment strategy is implemented is also a key driver in achieving better outcomes. The move to pooling has highlighted the importance of engaging both with the Pools and existing managers (and your investment advisors) to ensure the investment solutions are efficiently designed to capture the return premium you are seeking. With the potential for Funds' strategies to change as a result of actuarial valuations and funding and investment reviews, existing investment solutions may also need to adapt and/or new solutions are required. When thinking about implementation Funds should consider the following:

- Does each element of the strategic allocation have clearly defined objectives and risk requirements?
- What degree of active risk and investment freedoms should the manager or investment solution have available to them?
- Do the implementation options incorporate the investment beliefs of your Fund and take an integrated approach to responsible investment considerations?
- What route of implementation is the most effective to minimise cost leakages?

Having a clear understanding of what you need from each element of your investment strategy will improve engagement with managers, pools and providers of the investment solutions. This should result in successful solutions that are sustainable and will help your Fund achieve your investment outcomes.

Key questions to address:

- Do you have clearly defined objectives for each part of your investment strategy?
- How effectively are you engaging with your investment solutions providers to ensure the solutions are fit for purpose?
- What could be done to improve engagement with solutions providers?

Engagement and monitoring

Monitoring is a key part of any governance process. It allows us to measure what has happened against expectations. It can also help identify where things have gone well and where things could have gone better and apply the learnings from this process. To monitor effectively, it first requires clarity on roles, responsibilities and objectives.

The need for monitoring was highlighted in 2019 with the new CMA Order and the requirements to set objectives for investment consultants. As pooling progresses this has also highlighted to need to understand how roles and responsibilities can change over time and how this should also change how monitoring is carried out. Again, it is key that there is regular and effective engagement between stakeholders to ensure open communications and clearer understanding. Better engagement can help monitoring through the following:

- Ensuring there is clarity of roles and responsibilities and therefore how to spend your governance budget on monitoring
- Understanding what information is required for meaningful and effective monitoring
- Dialogue to identify areas of improvements or to celebrate and reward best practice

Reflect on lessons learned

Effective monitoring gives us time to reflect. It also allows us to consider all aspects of managing a pension fund and its investment strategy, whether it is the intricate detail of implementation of investment strategy or agreeing higher level principles for investment beliefs and long-term objectives. Effective monitoring should provide us with meaningful information so we learn from our experiences and help achieve better outcomes.

We believe the seven elements of our governance framework, which we have discussed over the last 12 months, can help Funds understand what the key drivers are to work towards a successful future for the LGPS.