

London Borough of Harrow Pension Fund ('the Fund')

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Prepared for: Pension Fund Committee
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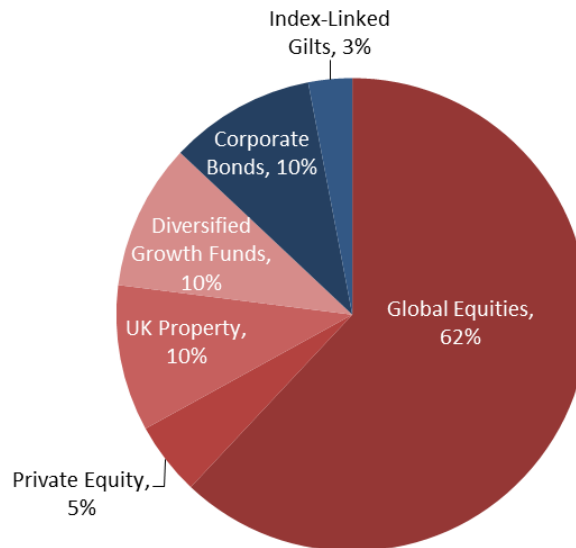
Investment Strategy

Introduction

The purpose of this short paper is to provide an update on the Fund's current investment strategy including expected return and risk as at 31 March 2016.

Current strategy

The Fund currently targets a portfolio of 87% growth assets, comprising of global equities, private equity, UK property and diversified growth funds and 13% matching assets which consists of index-linked gilts and corporate bonds. As at 31 January 2016, the Fund had £674.8m invested in the following target strategy:



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Asset Class	Fund	£m as at 31 January 2016	% as at 31 January 2016	Strategic target %
Global Equities	Longview – Equity Total Return	69.9	11	11
	State Street – Index Tracking Equities	208.3	32	31
	GMO Emerging Domestic Opportunities Strategy	67.7	11	10
	Oldfield – Global Equity	67.6	11	10
Private Equity	Pantheon (Europe Fund V, Global Secondary Fund III, USA Fund VII)	21.3	3	5
UK Property	Aviva – UK Fund of Funds	53.5	8	10
Diversified Growth Funds	Insight – Broad Opportunities Fund	26.6	4	5
	Standard Life – Global Absolute Return Strategy	29.6	5	5
UK Bonds	BlackRock – Corporate Bonds (iBoxx Over 10 Year Non-Gilt Index)	67.2	11	10
	BlackRock – Index-Linked Gilts (FTSE UK Gilts Index-Linked Over 5 Years Index)	17.5	3	3
TOTAL		638.4	100	100

Quantitative assessment of current strategy

Our quantitative assessment provides an overview of the expected risk and return profile of the strategy.

The portfolio has been modelled over a 10 year period, in order to provide a headline assessment of the expected return and volatility for each strategy.

The following assumptions have been used in our modelling:

- Liability duration has been approximated from a 0.5% stress test resulting in a duration of 16 years.
- The split between the Pension Fund's fixed and inflation-linked liabilities have been assumed to be approximately 18% and 82% respectively.
- The liabilities have been approximated using a combination of gilts and index-linked gilts with a similar duration and nature as described above.

50th percentile results

	Current strategy
10yr absolute return (% p.a.)	7.6
10yr absolute return volatility (% p.a.)	15.6
10yr return relative to 20yr gilts (% p.a.)	5.9
10yr volatility relative to 20yr gilts (% p.a.)	18.1
Efficiency (Absolute return per unit of risk)	48.7%
Efficiency (Relative return per unit of risk)	32.6%

Absolute performance

- The very high level of absolute volatility for the strategy is driven by the significant proportion of assets in the growth portfolio.

Performance relative to gilts

- The relatively low efficiency of the strategy relative to gilts is illustrative of the low level of interest rate and inflation hedging within the Fund.

Additionally, we have provided below the returns for the 25th and 75th percentiles:

	75 th percentile	25 th percentile
10 yr absolute return (% p.a.)	4.0	11.1
10yr return relative to 20yr gilts (% p.a.)	2.1	9.6

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