

REPORT FOR: Pension Fund Committee

Date of Meeting: 28 June 2017

Subject: Investment Strategy Review

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Investment Strategy Recommendation
(Aon Hewitt)

Section 1 – Summary and Recommendation

Summary

The Committee are asked to review the attached report produced by Aon Hewitt and consider the recommendations on a future investment strategy for the Fund included in the report and copied in paragraph 5 of this report. According to Part 3A of the Council's Constitution, Terms of Reference the Pension Fund Committee is under a duty to administer all matters concerning the Council's Pension investments in accordance with the law and Council Policy and it is under a duty to establish a strategy for the pension investment portfolio.

Recommendation

The Committee are recommended to consider the attached report from Aon Hewitt and, subject to any amendments they may wish to make, agree a revised investment strategy.

Section 2 – Report

1. Over recent months the Committee have been advised of the development of the triennial actuarial valuation for the Fund and, at their meeting on 7 March 2017, they agreed the Fund's Funding Strategy Statement.
2. Also at their meeting on 7 March the Committee agreed the Fund's Investment Strategy Statement.
3. The Investment Strategy Statement includes the current asset allocation strategy which has evolved over the last 3-4 years. However, the Statement recognises that, in the light of the actuarial valuation and the Funding Strategy Statement it would be appropriate to ask the Funds Investment Adviser, Aon Hewitt, to carry out a thorough review of the strategy. They have specifically been asked to carry out an in depth asset / liability modelling exercise to allow the Committee to understand the risks inherent in the current investment strategy and to identify other potentially suitable strategies for the Fund in the future.
4. On 6 June 2017 Aon Hewitt facilitated a workshop for the Committee during which they presented their initial analysis of the Fund's current strategy and suggested some alternative strategies for the Committee to consider.
5. A combination of the results of Aon Hewitt's analysis and the views expressed at the workshop are incorporated within the attached report which recommends as follows:

On the basis of the analysis conducted, and the feedback for the Investment Strategy workshop, the recommendations from Aon Hewitt in relation to the Fund's investment strategy are as follows:

1) Reduce the allocation to Equities by adopting the investment strategy outlined below in the short term. The allocations to the Equities funds and Diversified Growth Funds should be pro-rated and the currency hedging within the Equity allocation should remain at 50%

Asset Class	Allocation (%)	Desired Movement in Medium-Term
Global Equities*	42.0	
Emerging Market Equities	8.0	
Private Equity	5.0	Reduce as current funds wind down
Diversified Growth Funds	22.0	Decrease as proceeds required to fund Property and Infrastructure opportunities
Property	10.0	Increase as opportunities arise
Infrastructure	0.0	Increase as opportunities arise
Index-Linked Gilts	2.6	
UK Corporate Bonds	10.4	

*includes a 50% currency hedge of overseas equity market exposure within developed markets

Before any change is implemented, the Fund's Actuary should be consulted.

2) Allow the allocation to Private Equity to wind down, with no additional strategic allocation being made to the asset class.

3) Over the longer term use the proceeds from Private Equity and the increased allocation in Diversified Growth Funds to allocate further to growth-oriented Property opportunities and also to Infrastructure.

4) In the first instance, the Committee should receive training on both growth-oriented Property opportunities and Infrastructure.

5) In relation to the current level of Cash available to invest, whilst the training on Property is undertaken, we recommend that the amount be invested in the Fund's Diversified Growth Funds on a pro-rated basis.

6. The Committee are invited to consider the attached report from Aon Hewitt and, subject to any amendments they may wish to make, agree a revised investment strategy.

Financial Implications

7. Whilst the agreement to a new investment strategy has major financial implications for the Pension Fund there are none arising directly from this report.

Risk Management Implications

8. Risks arising from the investment strategy are included in the Fund's Risk Register and are considered in detail in the attached report.

Equalities implications

9. There are no direct equalities implications arising from this report.

Council Priorities

10. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Director of Finance

Date: 19 June 2017

Name: Noopur Talwar on behalf of the
Monitoring Officer

Date: 19 June 2017

Ward Councillors notified: NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers – None