

**PENSIONS COMMITTEE**  
**7 DECEMBER 2016****STRATEGIC ASSET ALLOCATION REVIEW**

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**Recommendation**

- 1. The Chief Financial Officer recommends that:**
  - a) The allocation to Infrastructure or a mix of Infrastructure and Real Estate be increased by 5% from the current strategic allocation of up to 10% of the Fund to 15%;**
  - b) The Chief Financial Officer be granted delegated authority in consultation with the Chairman and Vice-Chairman of the Pensions Committee to procure appropriate investment managers to secure increases to existing investments or enter into new investments;**
  - c) The Fund's existing investment into both Property and Infrastructure result in Capital distributions in between Strategic Asset Allocation reviews as the capital element of those investments be depreciated;**
  - d) A "rolling" investment programme be introduced for Property and Infrastructure investments to reinvest distributions that are received in that way in order that actual investment in this asset class is maintained at the levels up to those indicated in this Strategic Asset Allocation;**
  - e) The Fund's allocation to alternative indices be increased by 5%, which is conditional on recommendation 'f', from the current strategic allocation of up to 10% of the Fund to 15% equities allocation;**
  - f) Fund officers be authorised with the support of the Fund's current alternative indices investment Manager, Legal and General Asset Management, to also consider the appropriate balance of alternative indices to support the Fund's investment objectives. The 5% increase to alternative indices, recommendation 'e', is to be conditional on the Chair of the Pensions Committee approving the proposed balance of alternative indices;**
  - g) To fund the above structural asset allocation changes the asset allocation structural changes be implemented through an overall 2% reduction to each regional market capitalisation indices passive and active Equity allocation;**
  - h) The Strategic Asset Allocation to North American Equities be returned to Passive Management;**
  - i) The Fund's current global corporate Bonds strategy be maintained;**
  - j) Tolerance ranges as set out in Table 1 of the Appendix be implemented and maintained to allow the required portfolio flexibility;**
  - k) The Pension Investment Advisory Panel be tasked with overseeing further due diligence to be carried out on JP Morgan to confirm the application of their style given the slight bias to growth since 2010 indicated within this review;**

- l) A review of the Fund's exposure to currency and inflation risks be carried out at appropriate intervals, given the global nature of the Fund's investments as well as the bias towards Equities;**
- m) A review of regional Equity weightings and the Fund's Bonds Strategy be carried out before assets are transferred to LGPS Central Pool. Once transitioned to the Pool, a review of regional Equity weightings is recommended to form part of a more dynamic approach to asset allocation undertaken by the Pension Committee; and**
- n) The Bonds Investment Strategy be reviewed before transitioning assets into LGPS Central Pool.**

## **Background**

2. Every three years the Fund takes stock of the performance and composition of the Fund's Strategic Asset Allocation with the aims of:
  - i. meeting the requirements of the Fund's draft 2016 Funding Strategy Statement;
  - ii. maintaining targeted returns, and
  - iii. improving the Fund's opportunity to minimise volatility of returns and optimising diversification of risk.
3. The Fund's Funding Strategy Statement is not proposed to change as a result of the 2016 Actuarial Revaluation and therefore the aim of the Strategic Asset Allocation should remain unchanged from that endorsed by the Shadow Pensions Committee as a result of the 2013 valuation.
4. The Pensions Committee should note that it is being asked to 'approve' rather than 'endorse' recommendations set out in this review due to the change in Scheme Manager arrangements from the Chief Financial Officer of the Administering Authority to the Pensions Committee in 2014
5. The recommendations above are to enable the Fund to continue to meet the assumptions contained within the Fund's Funding Strategy Statement with regards to ongoing expected returns in excess of CPI inflation and also take into account Central Government's asset pooling agenda and the establishment of the LGPS Central pool on 1 April 2018.
6. No recommendations at this stage are being made in relation to the appointment of Investment Managers as these will naturally fall to the continued plan of reviews. Recommendations have also be made in accordance with the other responsibilities of the Pensions Committee to be included in the Forward Plan of the Pensions Committee.
7. The Strategic Asset Allocation Review report is attached as an appendix to this report.

## **Contact Points**

### County Council Contact Points

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### Specific Contact Points for this report

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## **Supporting Information**

- Strategic Asset Allocation Review (Appendix)

## **Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.