

PENSIONS COMMITTEE
16 JUNE 2017**ALTERNATIVE INDICES INVESTMENTS**

Recommendation

- 1. The Chief Financial Officer recommends that the blend of alternative indices factors be noted.**

Background

2. In December 2016 the Pensions Committee approved recommendations to move to a new strategic asset allocation for the Fund as part of the Fund's strategic asset allocation review. The aim of the asset allocation changes are to achieve lower volatility without reducing total returns to enable a closer correlation between the Fund's assets and the longer term liability profile.

3. One of the recommendations approved by the Committee was to increase the Fund's allocation to alternative indices by 5% from the current strategic allocation of up to 10% of the Fund to 15% equities allocation. The increase was conditional on the Chairman of the Pensions Committee approving the proposed balance of alternative indices which he has agreed to.

LGIM alternative indices blend analysis

4. Legal and General Asset Management (LGIM), the Fund's passive equities manager, carried out detailed analysis of the Fund's current alternative indices investments. The key finding was that the current portfolio has a significant negative tilt to 'value' style based on the book-to-price measure. With the addition of the Fund's active equity manager strategies to the alternative indices strategies, the book-to-price negative tilt becomes slightly more pronounced.

5. In 2014 the Fund's passive equity manager at the time, UBS, devised the current alternative indices blend to include a negative tilt to 'value' as the Fund had a number of active equity managers in place with a 'value' style bias e.g. Capital International. The alternative indices blend was therefore underweight to value to provide diversification against the active managers' 'value' style bias.

6. Following the termination of Capital International in 2016 and the ability of the JP Morgan Emerging Markets portfolio to move between 'value' and 'momentum' styles, the need to diversify away from 'value' as a style within the alternatives indices blend has reduced.

Revised alternative indices blend

7. As a result of the LGIM analysis the Chair of the Pension Committee has approved the option to maintain the current factor-based strategies but change the weights allocated to each of the strategies. In order to reduce the underweight to 'value' the alternative indices portfolio can tilt towards the 'value' factor via the FTSE RAFI 1000 index by giving it extra weight. The approved option is to reweight the alternative indices factor blend from equal thirds to 40% Value / 30% Min Vol / 30% Quality.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Email: worcestershirehub@worcestershire.gov.uk

Specific Contact Points for this report

Sean Pearce, Chief Financial Officer

Tel: 01905 846268

Email: spearce@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

Agenda papers and Minutes of the meeting held on 7 December 2016