

**PENSIONS COMMITTEE**  
**19 MARCH 2019****INITIAL STRATEGIC ASSET ALLOCATION REVIEW**

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**Recommendation****1. The Chief Financial Officer recommends that:**

- a) **The initial strategic allocation review undertaken by Hymans Robertson LLP is noted and the Committee consider the key findings of the review detailed in the Executive Summary of the attached report (see Appendix); and**
- b) **The Committee's comments are fed into the detailed strategic allocation review to be undertaken later in the year.**

**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:

- a) meeting the requirements of the Fund's draft 2019 Funding Strategy Statement when known;
- b) maintaining targeted returns, and
- c) improving the Fund's opportunity to minimise volatility of returns and optimising diversification of risk.

3. Given the improved funding position of the fund and the implementation of the Equity Protection Strategy, it was felt that it would be beneficial to conduct an interim review in advance of the 2019 actuarial valuation to assess the suitability of the current investment strategy and asset allocation set in 2016.

4. A tendering exercise was undertaken during November 2018 and suitable advisers from the National LGPS Framework were invited to put forward initial proposals as to how the Fund might carry out an interim review in advance of the valuation, taking into account:

- a) the performance and composition of funds strategic asset allocation endorsed by the Pensions Committee in 2016;
- b) The need for the Fund to consider options for suggested future changes to the fund's strategic asset allocation (taking on board the consideration of more dynamic equity protection options) with clear reasoned arguments and data analysis;
- c) Improve the funds opportunity to minimise volatility of returns and optimising diversification of risk; and
- d) Provide options for income generation whilst minimising the impact on returns

5. Hymans Robertson LLP were successful in December 2018 and their final report is attached as Appendix 1. The review takes into account any scope to improve the risk return profile of the Fund's investments, optimising diversification benefit where possible, whilst being mindful of contribution rates, income generation and the dynamic structured equity arrangement in place.

6. In order to test the impact of different variations in the strategy Hymans have carried out a mix of quantitative and qualitative analysis within this report. This high-level review takes into consideration the following aspects of the Fund's investment strategy.

- **Testing variations in strategy**
- **Structured Equity**
- **Investment strategy and funding affordability**
- **Currency hedging**
- **Income and net cashflow requirements**
- **Active versus passive management**
- **Interest rate and inflation hedging**
- **Investment pooling – Mapping to LGPS Central Ltd**
- **Investment beliefs**

7. David Walker from Hymans Robertson LLP will be presenting the key findings to Pensions Committee and these will then be considered alongside the detailed strategic allocation review to be conducted later in the year. This report provides a very good foundation for this review and highlights a number of key questions and considerations for Committee relating to areas such as the Structure equity and investment pooling.

8. In particular Hymans are supportive of the Committee's development of a core set of investment beliefs as a framework for decision making. Hymans believe that any recommendations from this report are tested against these beliefs to ensure there is a robust process for testing investment decisions that can stand up to scrutiny and can be clearly explained to external parties or new members of Committee

## **Contact Points**

### County Council Contact Points

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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.