

## **PENSIONS INVESTMENT SUB COMMITTEE**

### **14 NOVEMBER 2019**

## **PENSIONS STRATEGIC ASSET ALLOCATION UPDATE**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that the Pensions Investment Sub Committee note and comment on the Pensions Strategic Asset Allocation update.**

### **Recap**

2. It is worth refreshing that initial conversation into the overall strategic allocation was to look to have a target of 70% Equities (a reduction of 5%), 20% Infrastructure and Property (an increase of 5%) and retain fixed income at 10%. Initial modelling along with several other suggested strategies were provided by Hymans in their Strategic Asset Allocation (SAA) Resource review report to Committee in March 2019 and is still subject to discussion.

### **Background**

#### *Meetings so far*

3. A series of meetings have been held with a small working group consisting of Pensions Independent Investment advisor, Finance Manager Pensions Investments & Treasury Management, Chief Financial Officer, Chair and Vice of Pension Investment Sub Committee and Pensions Committee

4. The meeting on the 18 September covered the intended Strategic Asset Allocation Report Framework to be presented to the Pensions Committee on the 13 December which were:

- To take stock on the performance and composition of the Fund's Asset Allocation;
- To recommend for endorsement any changes required to the Fund's Asset Allocation to maintain targeted returns whilst considering the Fund's appetite for volatility and diversification of risk.

5. The meeting on the 16 October covered a focussed discussion on the Equities allocation and the resultant high-level suggested SAA targets from 2020 onwards. The overall conclusion was:

- Still comfortable with the original proposed split of 70% Equities, 20% Property and Infrastructure and 10% Fixed Income
- Feeling was that the Developed Asia mandate was possibly crossing over into the Emerging Market mandate and to investigate this further. It was felt to just retain the Japan mandate and potentially look to retender
- We have seen considerable volatility in world markets over the last decade or so, this may well continue particularly if we enter a bear market phase. Given this

scenario it was felt that active management would add value and to explore having a mix of active UK and US active management equivalent to around 5% of the portfolio.

- Reduce the passive market cap by 5% to bring equities down by 5% and allocate this to Property and Infrastructure.
- Explore further whether the split between market cap and multi-factor remains appropriate and should the allocation to market cap be reduced in favour of multi-factor.
- Need to be clear as to the reasons as to which asset allocations (including Equity Protection) we are investing in and those that we are not.
- To be mindful of the investment products that LGPS Central are developing (including the low carbon and sustainable equities products) and the timeframe that these are to be available to deliver these potential changes to our strategic investment allocation.
- To be clearer of our responsible investment beliefs and make this a clear statement in the SAA report and Investment strategy.

6. The overall conclusion of the above and draft strategic asset allocation at this stage is detailed below:

<b>Mandate</b>	<b>Target Allocation</b>	<b>Active / Passive</b>
<b>UK Active / US Active</b>	5%	Active
<b>Japan Active</b>	5%	Active
<b>Emerging Markets</b>	10%	Active
<b>Global Equities</b>	<b>50%</b>	<b>Passive</b>
Market Cap	35%	
<b>Alternative Factors</b>		
RAFI	6%	
Low Volatility	4.5%	
Quality	4.5%	
<b>Total Equities</b>	<b>70%</b>	<b>20% / 50%</b>
<b>Fixed Interest</b>	10%	Active
<b>Alternatives (Property &amp; Infrastructure)</b>	20%	Active

7. The paper on the 14 November covered the following areas and a verbal update will be provided at the meeting:

- Equity Protection
- Cashflow
- Property and Infrastructure
- Currency Hedging
- Responsible Investment and Climate Change

Specific Contact Points for this report

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## **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:

Previous notes and conclusions from the Strategic Asset Allocation working group on the 18 September 2019 and the 16 October 2019