

## **PENSIONS INVESTMENT SUB COMMITTEE**

### **3 MARCH 2020**

## **CORPORATE BONDS TRANSITION UPDATE AND STRATEGIC ASSET ALLOCATION UPDATE**

---

### **Recommendation**

- 1. The Chief Financial Officer recommends that the Corporate Bonds transition and the Strategic Asset Allocation Review update be noted.**

### **Corporate Bonds**

#### Transition of assets to LGPS Central

2. The mandate by LGPS Central is a 'Global active Investment Grade Corporate Bond Fund. A rigorous process like that of the AGEMS above was detailed in a report to the Pensions Investment Sub Committee on the 11 June 2019 to appoint 2 fund managers being Fidelity IL Pension Management and Neuberger Berman (Europe) Limited
3. LGPS Central appointed Inalytics to provide transition oversight to look to provide as smooth a transition as possible within the target implementation shortfall. LGPS Central then asked Inalytics to procure a transition manager and on 22 August appointed Blackrock as Transition Manager.
4. The transition was initially delayed due to market conditions, but a transition kick off meeting was undertaken again on the 18 November 2019 and then weekly meetings / updates with all concerned parties were progressed. The Fund transition (approximately £155m for Worcestershire Pension Fund but will be around £1.2bn overall) was launched on the 12 February and is currently progressing well. As at the 20 February (day 2 of trading) 53% of trading completion had been completed compared to the 45% target. An update will be provided to Committee.

#### Strategic Asset Allocation Review update

5. The Strategic Asset Allocation Report presented to the Pensions Committee on the 13 December 2019 agreed to increase the allocation to Infrastructure or a mix of Infrastructure and Real Estate by 5% from the current strategic allocation of up to 15% of the Fund to 20% and reduce the overall Equity strategic allocation exposure (proposal to reduce Market Cap indices element) by 5% (from 75% to 70%), with Fixed income remaining at 10%. This will help reduce portfolio risk and reduce portfolio concentration to large cap companies and therefore increase diversification across the number and size of companies in which the portfolio invests.

6. The new proposed structure and evolving strategy is designed to maintain current long term expected returns whilst reducing asset volatility and downside risk and thus reducing the volatility of the Fund during periods of economic crisis. The 5% increased allocation to Infrastructure and Property from Equities is designed to maintain expected returns, reduce volatility and increase the level of inflation hedge within the portfolio

7. A key recommendation was to review the Asset Allocation Strategy quarterly and have an annual formal review / stock take. To help inform this review it is recommended to have an economic update from a suitable Investment Fund manager at regular intervals to be decided at the meeting. To kick start this proposal an economic advisor from JP Morgan has been invited to the June meeting.

8. It is recommended to discuss how the quarterly review should be undertaken at the meeting. However, this should include progress of addressing the specific recommendations of the Strategic Asset Allocation report to Committee on the 13 December 2019. It should also cover an analysis of the current asset allocation compared to target and what steps (if necessary) are being taken to address any over or under asset allocation.

## **Contact Points**

County Council Contact Points

County Council: 01905 763763

**Worcestershire Hub: 01905 765765**

Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

Tel: 01905 846908

Email: [RWilson2@worcestershire.gov.uk](mailto:RWilson2@worcestershire.gov.uk)

## **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.