

## **PENSIONS INVESTMENT SUB COMMITTEE**

### **24 NOVEMBER 2022**

## **STRATEGIC ASSET ALLOCATION UPDATE AT 30 SEPTEMBER 2022**

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### **Recommendation**

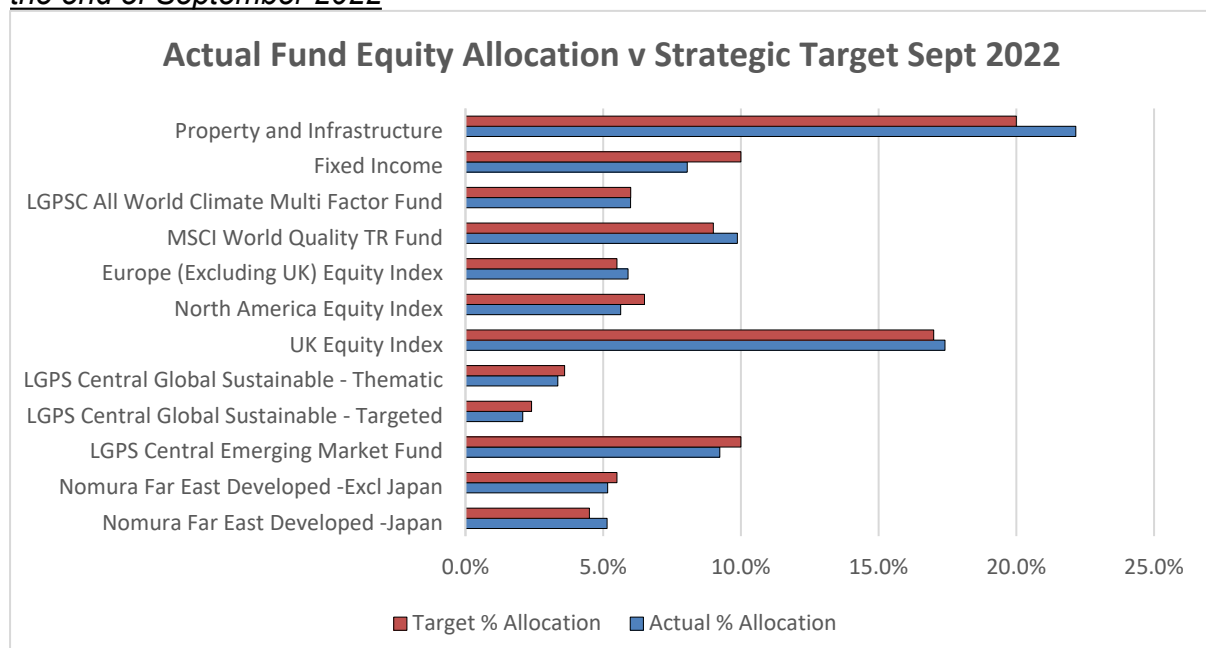
- 1. The Chief Financial Officer recommends that the Pensions Investment Sub Committee (PISC) note and comment on the Fund Strategic Asset Allocation update**

### **Background and purpose**

- 2. The purpose of this report is to provide members with an update on the Funds strategic asset allocation at the end of September 2022.**
- 3. The following paragraphs provide PISC with an update as to how the assets are performing against the Funds 3 to 5 year strategic asset allocation targets set from the 1 April 2020.**

### **Current Equity Performance and actual allocation versus target allocation as at the end of September 2022.**

***Table 1 Current Equity Performance and actual allocation versus target allocation as at the end of September 2022***



- 4. Table 1 above shows the current actual Fund allocation of assets compared to the revised strategic asset allocation targets of 70% Equities, 20% Property & Infrastructure and 10% Fixed income with effect from the 1 April 2020. The fund is currently overweight Property & Infrastructure, underweight Fixed Income, and broadly on target in total equities.**

5. The overall allocation to equities, including equity protection, as detailed in table 2 is 69.8% (71.4% June 2022) compared to a target of 70%. This has reduced since June mainly due to a reduction in the equity markets caused by the impact of inflation, cost of living increases, growing inflation and the Ukraine / Russia conflict. Additionally the fund has incurred some property & infrastructure capital calls which were in part funded via withdrawals from passive market cap equities.

6. Table 2 below shows the overall Equity performance of the Fund over the past 3 years and since inception up to the end of September 2022. The table highlights that over these timeframes the Passive Equities have outperformed their benchmark whilst both Alternative Factors and Active Equities have underperformed their benchmark.

**Table 2 Equity Performance as at the end of September 2022**

Asset Class	Fund Value £'M	3 Year Actual	3 Year BM	Since Inception Actual	Since Inception BM	Target Allocation	Actual Allocation	Variance under (-) over target
		Return	Return	Return	Return			
	£	% p.a.	% p.a.	% p.a.	% p.a.	%	%	%
<b>Passive</b>								
UK Equity Fund	429.4	0.9	0.8	5.8	5.6	17.0	17.4	0.4
North America Equity Fund	139.0	11.6	11.5	15.5	15.5	6.5	5.6	-0.9
Europe Equity Fund	145.6	2.1	2.3	7.7	7.9	5.5	5.9	0.4
Equity Protection strategy	229.6							
<b>Total Passive Equity</b>	<b>943.6</b>	<b>5.0</b>	<b>4.3</b>	<b>9.2</b>	<b>8.5</b>	<b>29.0</b>	<b>28.9</b>	<b>-0.1</b>
<b>Alternatives Factors</b>								
All World Climate Multi Factor Fund	195.4	0.0	0.0	-8.2	-8.3	6.0	6.0	0.0
Quality	321.8	10.0	10.1	14.5	14.7	9.0	9.9	0.9
<b>Total Alternatives</b>	<b>517.2</b>	<b>3.6</b>	<b>4.3</b>	<b>9.7</b>	<b>10.3</b>	<b>15.0</b>	<b>15.9</b>	<b>0.9</b>
<b>Total Active Equities</b>	<b>814.0</b>	<b>0.3</b>	<b>2.7</b>	<b>7.5</b>	<b>8.3</b>	<b>26.0</b>	<b>25.0</b>	<b>-1.0</b>
<b>TOTAL FUND All Equities</b>	<b>2,274.8</b>	<b>4.6</b>	<b>4.5</b>	<b>9.0</b>	<b>9.0</b>	<b>70.0</b>	<b>69.8</b>	<b>-0.2</b>

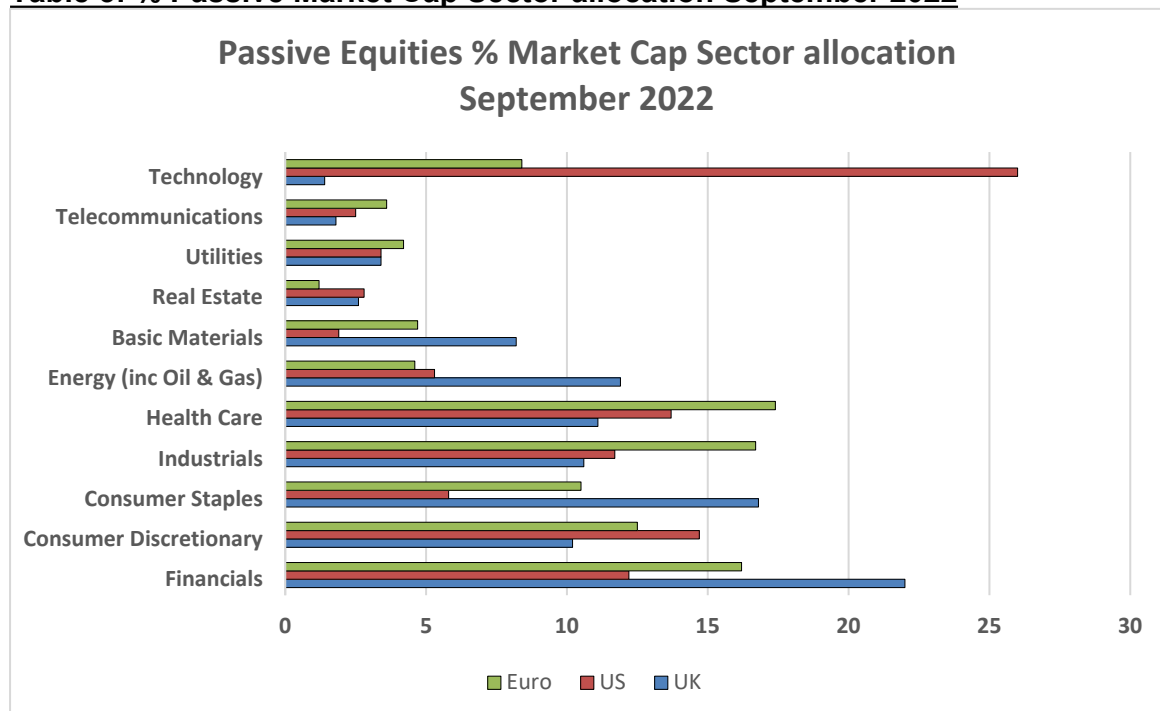
### Passive Market Cap

7. From a passive point of view the North America fund (includes Canada allocation of just over 4%) has performed better than the European Fund which in turn has performed well against the UK FTSE Market cap Fund since inception. The previous larger underweight position in asset allocation in the UK compared to the US overweight before rebalancing back in September 2021 has helped cushion the low performance return of the UK FTSE for the Fund.

8. The Total Passive Equity actual allocation is 0.1% under target once the Equity Protection has been pro-rated over the existing passive market cap indices. This is likely to fluctuate in line with equity performance and as property and infrastructure drawdowns are paid out.

9. The performance of the market caps relative to each other may be explained by market sectors as the US has a substantial investment in the technology sector compared to the UK and European markets as shown in Table 3 below.

**Table 3: % Passive Market Cap Sector allocation September 2022**

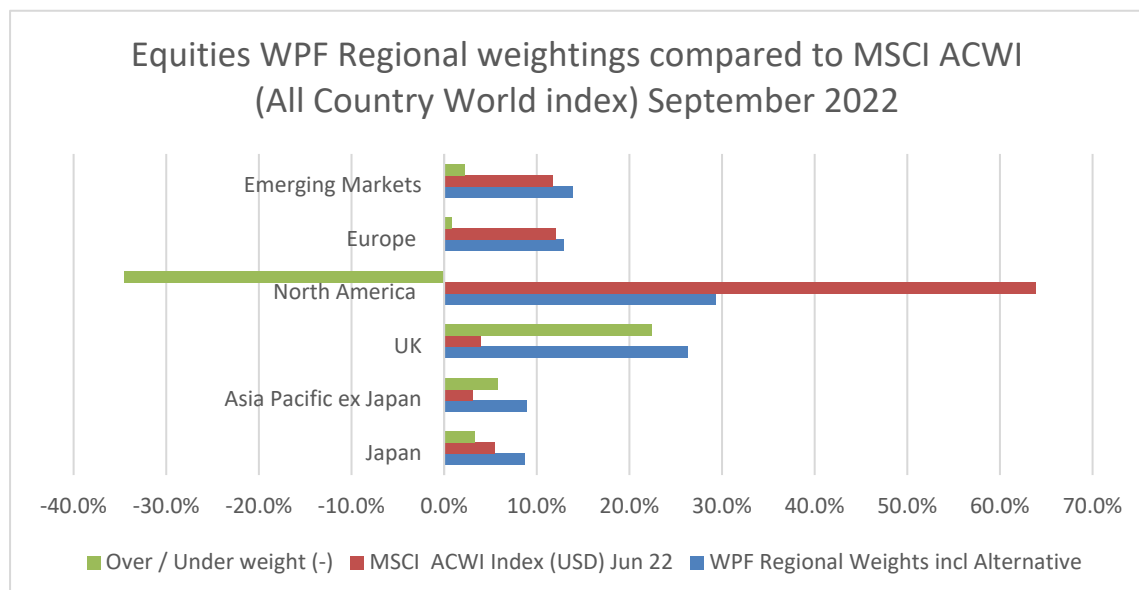


**Review of Regional weights compared to global index**

10. The Funds equity positions are split between those invested on a regional geographic basis (Nomura, LGPSC Emerging Markets, LGIM Passive market cap funds) or those investing on a global basis.

11. It is worth pointing out that these regional equity asset allocations lead to variances verses the MSCI All Country World Index as shown in table 4 below. Members need to be mindful of this and remain comfortable with the position.

**Table 4 sets out the Fund's equity exposure via regional portfolios relative to the MSCI All Country World Index (ACWI) as of September 2022.**

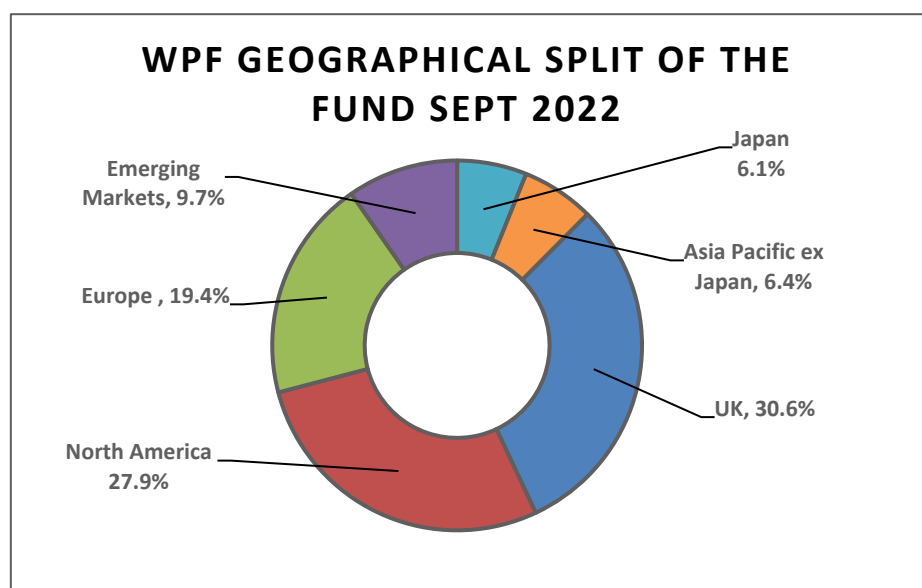


12. Compared to the MSCI All Country World Index the Fund has a large underweight to North America, and a large overweight to the UK. Over the long term the process of determining regional weights is likely to be a major driver of the Fund's equity allocations performance.

13. Performance of regional vs. global allocations will fluctuate over time but investing via a series of regional weightings does offer the Fund better opportunities to fully tailor regional weights and provides the option of dynamic asset allocation by the Pension Fund.

**Overall Geographical Split of the Funds Total Assets under Management Sept 2022**

14. Table 5 below shows the overall Geographical Split of the Fund's Total Assets under Management at 30 September 2022 taking on board its allocations to Equities, Fixed Income & Property and Infrastructure. This demonstrates the diversification of the assets in the Fund.



**Contact Points**

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**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.