

PENSIONS INVESTMENT SUB COMMITTEE

2 MARCH 2023

STRATEGIC ASSET ALLOCATION UPDATE AS OF THE 31 DECEMBER 2022

Recommendation

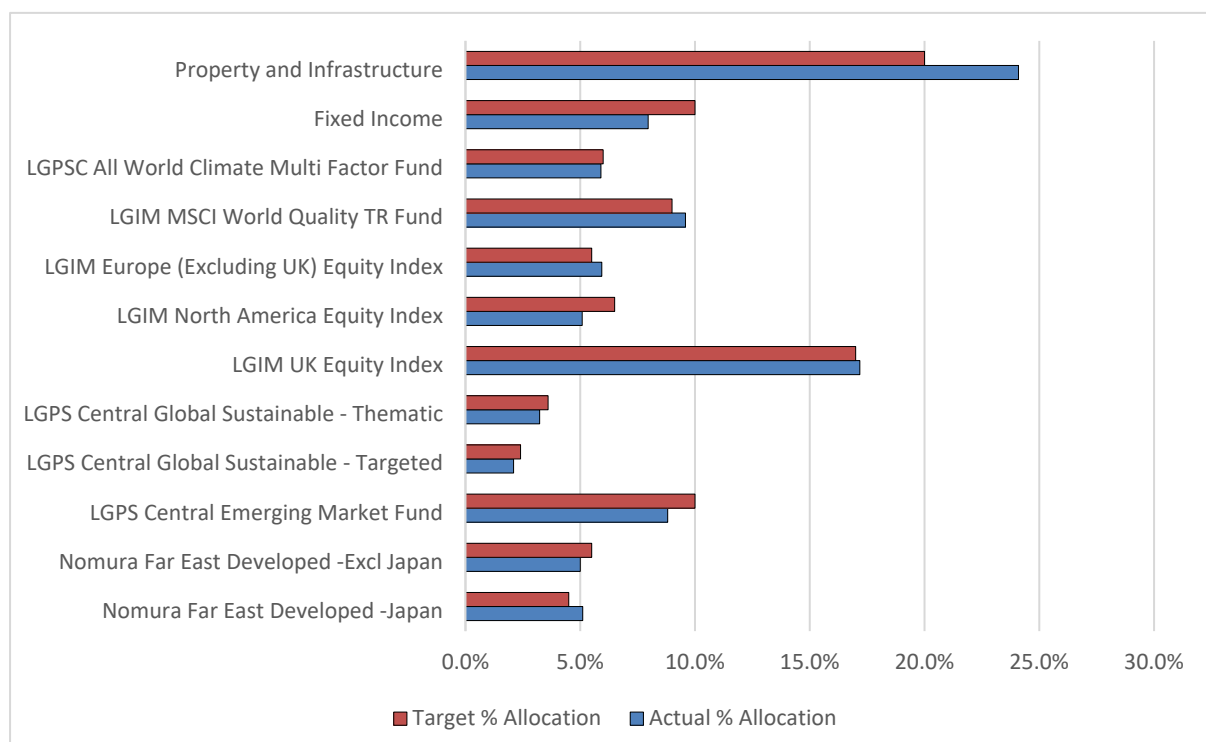
- 1. The Chief Financial Officer recommends that the Pensions Investment Sub Committee (PISC) note and comment on the Fund Strategic Asset Allocation update**

Background and purpose

2. The purpose of this report is to provide members with an update on the Funds strategic asset allocation as at the end of December 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.

Actual allocation versus target allocation as at the end of December 2022.

Table 1 All asset class actual allocation versus target allocation as at the end of December 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 underweight total equities. However all variances are within the +/-5% tolerance with Property & Infrastructure having the largest variance at +4.1% (+2.2% Sept 23).

Table 2 Equity actual allocation versus target allocation as at the end of December 2022

Asset Class	Fund Value	Target Allocation	Actual Allocation	Variance under (-) over target
	£'m	%	%	%
Passive				
UK Equity Fund	590.1	17.0	17.2	0.2
North America Equity Fund	174.7	6.5	5.1	-1.4
Europe Equity Fund	204.0	5.5	5.9	0.4
Equity Protection strategy	0.0			
Total Passive Equity	968.8	29.0	28.2	-0.8
Alternatives Factors				
All World Climate Multi Factor Fund	202.7	6.0	5.9	-0.1
Quality	329.2	9.0	9.6	0.6
Total Alternatives	531.9	15.0	15.5	0.5
Total Active Equities	832.9	26.0	24.3	-1.7
TOTAL FUND All Equities	2,333.6	70.0	67.9	-2.1

5. The overall allocation to equities as detailed in table 2 is 67.9% (69.8% September 2022) compared to a target of 70%. The % holding has reduced since September mainly due to drawdowns by property and infrastructure managers increasing their holding % whilst depleting cash reserves resulting in a £35m withdrawal from passive equities to fund cashflow. This was done as per the liquidity waterfall.

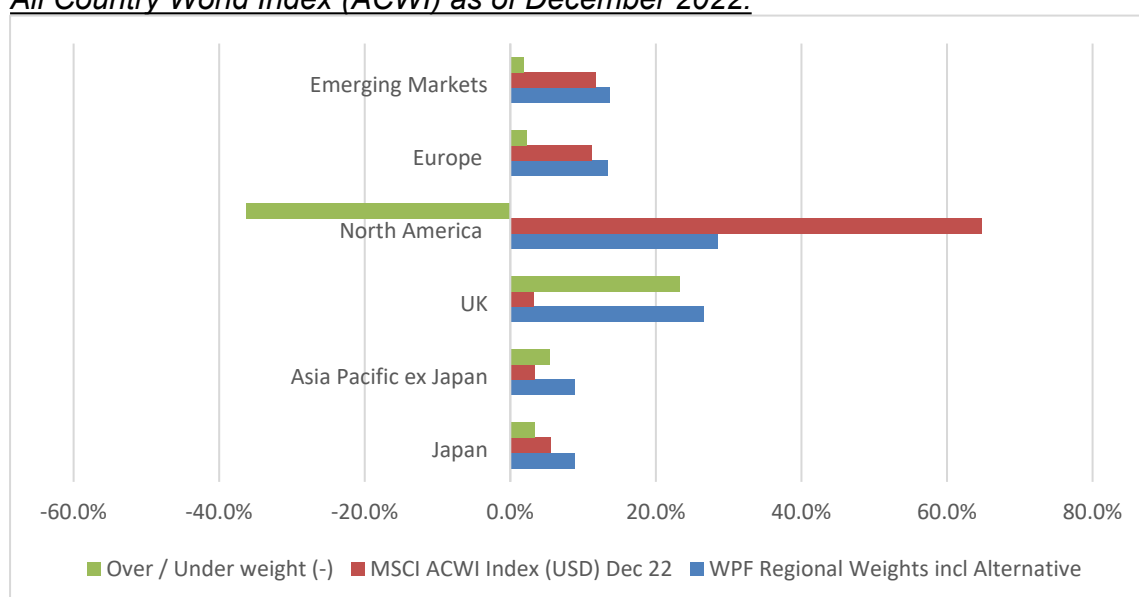
6. Also note that the fund exited the equity protection policy during Q4 2022. The cash was reinvested directly into passive equities pro-rated to holdings in the 3 regional funds.

Review of Regional weights compared to global index

7. 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.

8. It is worth pointing out that these regional equity asset allocations lead to variances verses the MSCI All Country World Index (MSCI ACWI) as shown in table 4 below. As the MSCI ACWI is a guide to global diversification in the investible world this comparison allows members to see where our allocation aligns or varies from the market as a whole. Members need to be mindful of this and remain comfortable with the position.

Table 3 sets out the Fund's equity exposure via regional portfolios relative to the MSCI All Country World Index (ACWI) as of December 2022.



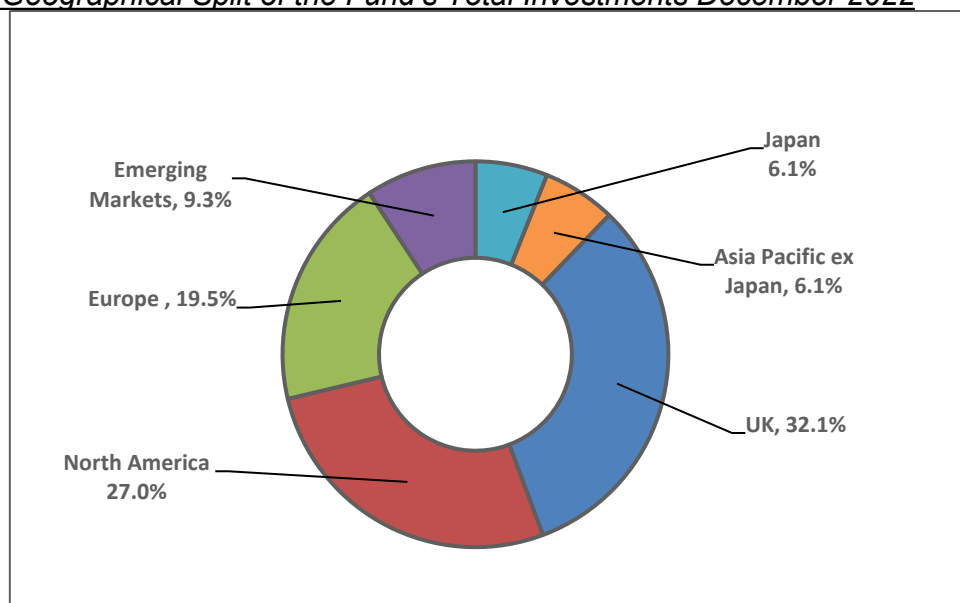
9. Compared to the MSCI All Country World Index the Fund has a large underweight to North America, and a large overweight to the UK. Over the long term the process of determining regional weights is likely to be a major driver of the Fund's equity allocations performance.

10. 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 Fund's Total Assets under Management December 2022

11. Table 4 below shows the overall Geographical Split of the Fund's Total Assets under Management at 31 December 2022 taking on board its allocations to Equities, Fixed Income & Property and Infrastructure. This demonstrates the diversification of the assets in the Fund.

Table 4 Geographical Split of the Fund's Total Investments December 2022



12. The UK is the highest invested geographical location with investments across all sectors such as LGIM passive equities, 30% LGPSC Active Bonds, 30-40% in each private debt portfolio, Maquarie Renewable Energy, Gresham House BSIF and Forestry etc. North American is the second highest invested location with investments such as LGIM passive equities, 37% LGPSC Active Bonds, Stonepeak Infrastructure and Walton Street Property. Europe is the third largest and again this has investments across all sectors.

13. **Please note that the Appendix contains exempt information relating to the financial or business affairs of any particular person (including the authority holding the information) (on salmon pages) and should members wish to discuss the information included in these Appendices they would need to consider passing the appropriate resolution and moving into exempt session.**

Supporting Information

Appendix – Strategic asset Allocation Review 2022 – presentation slides (**Exempt Information – Salmon pages**)

Contact Point

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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.