

PENSIONS COMMITTEE

13 December 2023

Title: Investment Strategy and Structure Review	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Director: Jo Moore, Interim Strategic Director Finance and Investment (S151 Officer)	
Accountable Strategic Leadership Director: Fiona Taylor, Chief Executive	
Summary This paper gives members an outline of the strategy review and an update on the implementation of this. This review considers any scope to improve the chances of achieving the Fund's primary objective and the risk return profile of the Fund's investments, optimising diversification benefits where possible, whilst being mindful of contribution rate affordability and income requirements.	
Recommendation(s) The Pension Committee is asked to note: i) the Investment Strategy and Structure Review proposals put forward by Hymans Robertson; and ii) the implementation of the Strategy Review and the next steps following agreement at the last Committee.	

1. Introduction and Background

- 1.1 Following the 2022 triennial valuation, the Fund's advisors, Hymans Robertson (Hymans), has carried out a review of the strategy and has put forward several recommendations. Prior discussions have taken place between Hymans and officers to streamline the number of options and changes within the strategy, with a few easy to implement strategy changes proposed initially, with further reviews carried out during the year.
- 1.2 The further reviews will be for smaller changes and will focus on adjusting the current allocations to Diversified Growth, Infrastructure, property and Alternatives.

2. Hymans Strategic and Structural Recommendations

- 2.1 The recommendation was to reduce the Fund's allocation to growth and increase its allocation to income. The recommendations are summarised below and are supported by officers:
 - i. Strategy 1 was recommended for consideration by the Pensions Committee. This strategy involves a reduced allocation to growth assets and an increased allocation to corporate bonds ('global credit'). This change would reflect the significant improvement in funding position since the last valuation and involves reducing the allocation to equities/DGF and increasing allocations to Income assets.
 - ii. The strategy would involve a modest de-risking step and should be straightforward to implement as it involves asset classes which have a good level of liquidity and are not overly complex.
 - iii. The strategy also takes advantage of the improved expected returns in excess of 5% for investment grade corporate bonds, which means that these offer lower-risk long-term expected returns with a high degree of certainty.
 - iv. If a higher allocation to Protection assets was considered, we would support an allocation to inflation linked gilts within that portfolio to provide diversification and explicit inflation protection, as this remains a significant risk for the Fund.
 - v. The changes at a strategic level are shown below:

Asset class	Current (%)	Strategy 1 (%)	Allocation change
Growth	76.0	74.0	(2)
Equities	52.0	50.0	(2)
Diversified Growth Funds	15.0	13.0	(2)
Private Equity + Hedge Funds	9.0	11.0	2
Income	21.0	23.0	2
Property	5.0	4.0	(1)
Infrastructure	8.0	8.0	-
Global credit	8.0	11.0	3
Protection	3.0	3.0	-
Fixed Interest gilts	3.0	3.0	-
Total	100.0	100.0	-
Expected return p.a. (10y)	7.2%	7.1%	-0.1%
Downside Risk (3y, 1 in 20)	c.£500m	c.£489m	-£11m

- 2.2 The proposals put forward by Hymans are a number of relatively small changes to the Fund's strategic allocation. Although fairly small at a strategic level there will be a more significant change when taking into account the current overweight positions to equity and the underweight position to global credit and fixed interest gilts.
- 2.3 The Fund's current allocation against the proposed revised strategic allocation is provided in the table below, along with the estimated cash movements to reduce equities and DGF and fund Global Credit and Gilts.

Asset class	Actual £Ms	Actual %	Strategy 1 %	Change £Ms
Growth				
Equities				
Kempen - Active Value	220.0	16.7%	15.0%	- 21.0
LCIV Baillie Gifford - Active Growth	244.0	18.5%	15.0%	- 45.0
UBS - Passive Hedged	194.3	14.7%	15.0%	
UBS - Passive Unhedged	69.5	5.3%	5.0%	
Total	727.8	55.2%	50.0%	- 66.0
DGF	-			
Pyrford - Bonds	116.7	8.8%	7.0%	- 24.0
Newton - Equity	79.1	6.0%	6.0%	
Total	195.8	14.8%	13.0%	- 24.0
Alternatives				
Abrdn - Private Equity + Cash	109.9	8.3%	8.0%	
Abrdn - Hedge Fund	35.9	2.7%	3.0%	
Total	145.7	11.1%	11.0%	-
Income				
BlackRock - Property	54.9	4.2%	4.0%	
Hermes - Infrastructure	95.8	7.3%	8.0%	
Insight - Global credit	68.5	5.2%	5.0%	
LCIV PIMCO - Global Credit	-		6.0%	80.0
Total	219.2	16.6%	23.0%	80.0
Protection				
UBS Fixed Interest gilts	30.0	2.3%	3.0%	10.0
Total	1,318.5	100.0%	100.0%	-

3. Implementation of the Strategy Review

3.1 At the meeting in June this year, Members agreed the following:

- i) the adoption of alternative strategy 1, which has the highest success measures, and reduces downside relative to the current strategy,
- ii) the changes proposed as part of the structure review, including recommending:
 - reducing the strategic allocation to equities from 52% to 50%;
 - reducing the strategic allocation to DGF from 15% to 13%;
 - increase the strategic allocation to Alternatives from 9% to 11%;
 - reducing the strategic allocation to Property from 5% to 4%;
 - increase the strategic allocation to global credit from 8% to 11%;
- iii) the appointment of LCIV PIMCO as the Fund's Global Credit Manager;

- iv) to rebalance the current holdings to the revised strategic allocations, as outlined in section 5;
- v) a series of number of further strategy reviews over the next year as outlined in the Hymans Robertson report, including:
 - Consideration of any relevant investments' options available via the London CIV
 - A framework for regular rebalancing of investments
 - Review of existing DGF managers
 - Review of existing Infrastructure Manager
 - Review of property investments, and allocations to residential / commercial property sectors, and
- vi) All agreed changes to be reflected in an updated Investment Strategy Statement.

3.2.1 Following members agreement of the above proposals, the following changes have been implemented to the strategy to date:

July 2023

- £20m of the Fund's passive equity investments with Kempen were redeemed.
- £20m of the LCIV Global Total Return Fund (Pyrford) was redeemed at trade date 24th July 2023. Funds were directly re-invested into the PIMCO Global Bond Fund via the London CIV with trade date 26th July 2023.

August 2023

- From the Kempen redemption, £8m was held in the Pension Fund bank account for the running of the fund and with the remaining £12m, the fund purchased gilts via the UBS Fixed Income strategy with trade date 3rd August 2023.
- £25m of the LCIV Global Alpha Growth Paris Aligned Fund (Equity fund) was redeemed at trade date 29th August 2023. Funds were directly re-invested into the PIMCO Global Bond Fund via the London CIV with trade date 30th August 2023.

September 2023

- £25m of the LCIV Global Alpha Growth Paris Aligned Fund (Equity fund) was redeemed at trade date 19th September 2023. Funds were directly re-invested into the PIMCO Global Bond Fund via the London CIV with trade date 20th September 2023.
- At the end of September 2023, the fund subscribed £70m to the PIMCO Global Bond Fund.

- The investment strategy statement has been updated to reflect the recommendations from the review.

4. Consultation

- 4.1 Council's Pension Fund monitoring arrangements involve continuous dialogue and consultation between finance staff, external fund managers and external advisers. The Finance Director and the Fund's Chair have been informed of the approach, data and commentary in this report.

5. Financial Implications

Implications completed by: David Dickinson, Investment Fund Manager

- 5.1 The Council's Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. Investment decisions are taken based on a long-term investment strategy. The investment performance has a significant impact on the General Fund.
- 5.2 This report outlines the investment strategy changes proposed by the Fund's investment advisors, Hymans Robertson.

6. Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Solicitor

- 6.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.
- 6.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 are the primary regulations that set out the investment framework for the Pension Fund. These regulations are themselves amended from time to time. The Regulations are made under sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013. They set out the arrangements which apply to the management and investment of funds arising in relation to a pension fund maintained under the Local Government Pension Scheme.

7. Other Implications

- 7.1 **Risk Management** - Investment decisions are taken based on a long-term investment strategy. Investments are diversified over several investment vehicles (equities – UK and overseas, bonds, property, infrastructure, global credit and cash) and Fund Managers to spread risk.

Performance is under constant review, with a significant review completed every three years. This report and its appendices is part of this triennial review of the strategy.

List of appendices:

None