

Report for: Pensions Committee and Board – 30 January 2024

Item number: 20

Title: Investment Strategy Review: Strategic Asset Allocation

Report authorised by: Josephine Lyseight, Assistant Director of Finance (Deputy Section 151 Officer)

Lead Officer: Tim Mpofu, Head of Pensions and Treasury
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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Not applicable

1. Describe the issue under consideration

- 1.1. Haringey Council is the designated statutory Administering Authority for the Haringey Local Government Pension Scheme (LGPS). Administering Authorities are responsible for operating the scheme in accordance with the LGPS regulations, which includes the investment of Pension Fund assets and paying pension benefits.
- 1.2. This report provides the Pensions Committee and Board (PCB) with an assessment of the of the Pension Fund's current strategic asset allocation in comparison to various alternative options.
- 1.3. This report aims to ensure that the Pension Fund has an appropriate strategy in place to fulfil its obligation of paying member pension benefits.

2. Cabinet Member Introduction

- 2.1. Not applicable

3. Recommendations

The Pensions Committee and Board is recommended:

- 3.1. To note Mercer's Investment Strategy Review paper, appended as Confidential Appendix 1 of this report, and the advice contained therein.
- 3.2. To approve a change to the Pension Fund's strategic asset allocation to Option 1 as set out in Confidential Appendix 1 of this report.
- 3.3. To delegate the authority to the Head of Pensions and Treasury to implement the above strategic asset allocation (if approved), including appointing the investment manager identified on page 13 of Confidential Appendix 1 of this report. This will be done in consultation with the Chair of the PCB and Independent Advisor, and after seeking professional advice from the Pension Fund's investment advisors.

4. Reason for Decision

- 4.1. Haringey Council, in its role as the Administering Authority for the Haringey Pension Fund, is required by law to keep its investment strategy under regular review from time to time, and at least once every three years.
- 4.2. The Council has delegated the responsibility for exercising all the Council's functions as the Pension Fund's administering authority, to the Pensions Committee and Board.
- 4.3. The 2022 actuarial valuation exercise showed a significant improvement in the funding position of the Fund compared to the 2019 valuation. As a result, the investment strategy has focused on reducing investment risk. The Fund's investment advisors have identified attractive opportunities in fixed income investments due to the recent rise in bond yields.

5. Other options considered

- 5.1. All the options under consideration have been included in Confidential Appendix 1 of this report.

6. Background information

- 6.1. Following the conclusion of the actuarial valuation exercise, the Pensions Committee and Board (PCB) agreed to conduct a thorough review of the current investment strategy. The purpose of this review was to ensure that the Fund's investment strategy was in line with the anticipated growth in the Fund's long-term obligations, as well as the expected future investment return requirements.
- 6.2. The high-level process included establishing investment objectives and reviewing the strategic asset allocation. An assessment of the role of fixed income investments in the portfolio was highlighted as a significant consideration.
- 6.3. The Fund's investment advisors, Mercer, have prepared an Investment Strategy Review paper. This paper includes modelling results for the Fund's strategic asset allocation, focusing on increasing the allocation to defensive/income producing investments through traditional fixed income strategies.
- 6.4. The analysis explores different portfolio options and their impact on investment risk. The material improvement in the funding position and the attractive returns on bond assets provide a good opportunity to consider increasing the allocation to these asset classes.
- 6.5. Additionally, the paper recommends adopting Option 1 as the revised strategic asset allocation. This option offers the greatest reduction in risk while also providing a higher expected return compared to some alternative options.
- 6.6. To fully capture the benefits of this opportunity, it is advised that the PCB ensures the implementation of this change as soon as possible.

7. Contribution to Strategic Outcomes

- 7.1. Not applicable

8. Carbon and Climate Change

- 8.1. Haringey Pension Fund is committed to being a responsible investor, which involves engaging with and encouraging companies to take positive action on environmental, social and governance (ESG) issues.
- 8.2. The Fund's current and proposed investment strategy include allocations to renewable infrastructure funds and low-carbon equity index funds. One such fund is the RAFI-Multi Factor Climate Transition Fund, which aims to reduce the Fund's carbon intensity in accordance with the Paris Agreement.
- 8.3. As part of the ongoing strategy review, further work has been planned for a thorough review of the Fund's responsible investment and ESG policies.

9. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

- 9.1. Mercer's report, attached as the confidential appendix, highlights that implementing the recommendations would likely lead to greater portfolio risk reduction with similar expected returns. The expected returns of all the portfolios under consideration are higher than the required rate of return set at the 2022 actuarial valuation exercise. Therefore, the recommended strategic asset allocations increase the likelihood of the Fund maintaining a future funding level above 100% and ensuring that contributions rates remain as stable as possible.
- 9.2. The recommended strategy will result in a small increase in investment management fees as identified on page 13 of confidential appendix 1 of this report. However, this increase will be covered by the pension fund. Additionally, these fees are considered appropriate for this type of investment strategy.

Head of Legal and Governance [Patrick Uzice, Principal Lawyer]

- 9.3. The Head of Legal and Governance (Monitoring Officer) has been consulted on the contents of this report. The administering authority must invest in accordance with the Investment Strategy.
- 9.4. Under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the administering authority must, after taking proper advice, formulate an Investment Strategy (in accordance with guidance issued from time to time by the Secretary of State). It must also keep this under review (at least every three years) and if necessary, revise it.
- 9.5. The Investment Strategy must include:
 - (a) a requirement to invest fund money in a wide variety of investments;
 - (b) the authority's assessment of the suitability of particular investments and types of investments;
 - (c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
 - (d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

9.6. The Investment Strategy must set out the maximum percentage of the total value of all investments of fund money that will be invest in particular investments or classes of investment. Therefore, any decision made by the PCB must not exceed the maximum percentage for that particular or class of investment.

Equalities

9.7. Not applicable.

10. Use of Appendices

10.1. Confidential Appendix 1: Investment Strategy Review

11. Local Government (Access to Information) Act 1985

11.1. Not applicable.