Haringey Council

Report for:	Pensions Committee 10th September 2015	**Item number**	

Title:	Investment Strategy Review

Report authorised by :	Kevin Bartle, Assistant Director – Finance

Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions george.bruce@haringey.gov.uk 020 8489 3726

Ward(s) affected: N/A	**Report for** Non Key Decision

1. Describe the issue under consideration

1.1 At the July meeting, the Committee requested Mercer to model the impact of reducing the Fund's equity allocation by 5% or 10%. The attached Mercer's report considers the impact of switching out of equities into a variety of alternative assets classes and proposes that training be provided on the most highlighted alternatives.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That training is provided on the following asset classes prior to making any decisions on reducing equity allocations:

- Diversified growth funds
- Private debt
- High lease to value properties

4. Other options considered

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4.1 The Mercer modelling considers a range of alternatives compared with the current portfolio and the proposed training will focus on those asset classes most suitable to add to the current portfolio.

5. Background information

5.1 The most important investment role for the Committee is the setting of an asset allocation strategy. This is the desired allocation to the various asset classed e.g. equities, bonds, property, cash etc. Different assets allocations will have different expected outcomes in terms of future returns and also the predictability of returns.

5.2 In setting the current strategy that has a high allocation to equities, property etc, whose values have a strong correlation with economic growth, the Committee is focused on funding the promised benefits primarily from investments returns while seeking to minimise / stabilise employer contributions. The current strategy is attached (appendix 1). The Committee are required to keep the strategy under review considering the impact of funding levels and market conditions.

5.3 At the July meeting the Committee requested Mercer to model the impact of reducing the equity allocations by 5% or 10% from the current 60%.

<u>Modelling Outcomes and next Steps</u>

5.4 The Mercer's report (pages 7 & 8) models the impact of 5% and 10% reductions in the proportion of listed equities. In each alternative portfolio, there is a meaningful reduction in risk, although in most cases a modest reduction in expected return. The impact on expected return is most noticeable when increasing the proportion invested in index linked gilts but less pronounced for the alternatives discussed. The findings support a long term approach to seeking out alternative sources of returns. Timing any move out of equities can add value, which should be discussed post training.

5.5 The report discusses a number of asset classes that the Committee may be unfamiliar – diversified growth funds, high loan to value properties and private debt. Each of these will have different characteristics e.g. degree of active management, fees and fit with the existing portfolio. The Committee will need to be comfortable with any asset class before consideration is given to investing.

5.6 It is proposed that training is provided on each of the new asset classes prior to the Committee being asked to make a decision on any of the alternative portfolio's discussed in Mercer's report.

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5.7 A copy of the findings from the report have been sent to the Actuary. The Committee will wish to ensure that any changes in strategy do not have a negative impact on the plan to address the funding deficit or the Actuary's comfort with current contribution levels. Comments from the Actuary will be reported to the meeting.

6. Comments of the Chief Financial Officer and financial Implications

6.1 The Fund has enjoyed strong returns in recent years primarily from rising equity and index linked valuations. The Pension Committee responsibility is to look to the long term when setting an investment strategy, ensuring an appropriate degree of diversification.

6.2 The proposal to review the strategic allocations in light of the high reliance on listed equities and to receive training on the available alternatives is supported.

7. Assistant Director of Corporate Governance comments and Legal Implications

7.1 The Council as administering authority for the Haringey Pension Fund has the power to invest fund monies as set out in Local Government Pension Scheme (Management & Investment Funds) Regulations 2009.

7.2 Any changes to the allocations must comply with the Pension Fund Statement of Investment Principles and in line with the Pension Fund's investment strategy. This report recommends that training be provided about the different asset classes prior to any decision being made about asset allocations. There are no legal implications in respect of the recommendation.

8. Comments from Independent Advisor

8.1 The Fund has enjoyed good returns over the short (1 year) and medium term (both 3 and 5 years). This has been particularly driven by the Fund's Asset Allocation Strategy (Strategic Asset Allocation) – that is the choice of asset classes it has invested in and the proportion of the Fund invested in each asset class. The Fund's high allocation to Listed Equities and also its allocation to Index Linked Gilts have facilitated strong returns over the medium term. Listed Equities are, over the long run, a high returning asset class but they can also be highly volatile. Given however the historic long term positive returns of Listed Equities and the need for the Fund to clearly improve its Funding position I am of the view that, at this time and in the future unless there is some very clear change in the characteristics of the

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Fund, Listed Equities should continue to form at least 50% of the Fund's Strategic Asset Allocation

8.2 In 2014 the Committee reduced the Strategic Allocation to Listed Equities from 70% to 60% and further diversified its Strategic Asset Allocation through allocations of 5% to both Multi Sector Credit and Infrastructure Debt. Given the length of the present clearly positive returns from Listed Equities coupled with their potential and historic significant volatility consideration of a further limited reduction in the Strategic Allocation to Listed Equities is a matter the Fund may wish to consider. Additional diversification of the Funds Asset Allocation, to seek to further smooth returns over the long term, might also be considered given the requirement under Regulation 62 of the LGPS Regulations 2013 (as amended) that the Fund undergo an Actuarial Valuation every three years and the requirement that the Fund seek to maintain as stable Employer Contribution Rates as possible.

8.3 It is, in my view, absolutely essential that the Committee receive training in respect of any Asset Class before determining whether or not the Fund should utilise it as part of its Strategic Asset Allocation.

9. Equalities and Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Head of Procurement Comments

10.1 Not applicable

11. Policy Implications

11.1 None.

12. Use of Appendices

12.1 Appendix 1: Current Investment Strategy
Appendix 2: Mercer report – Investment Strategy Review

13. Local Government (Access to Information) Act 1985

13.1 Not applicable.

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Appendix 1

Asset class	Actual % 30 April 2015		Benchmark %		Range %
UK Equities		16.5		15	12-18%
Overseas Equities		49.8		45	40-50%
North America	24.9		21.7		
Europe ex UK	7.7		7.4		
Pacific ex Japan	3.4		3.4		
Japan	3.5		3.5		
Emerging Markets	10.3		9		
UK Index linked gilts		14.1		15	12-18%
Property		9.1		10	6-12%
Multi Sector Credit		4.4		5	4-6%
Infrastructure Debt		1.8		5	4-6%
Private Equity		3.4		5	4-6%
Cash		0.9		0	0-10%
Total		100.0		100.0	