

Report for: Pensions Committee and Board 20th July 2017

Item number:

Title: Multi Asset Absolute Return Investments

Report authorised by: Tracie Evans, Deputy Chief Executive (CFO and S151 Officer)

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. At the 27 March Pensions Committee and Board meeting, the committee agreed to hold an interim meeting for training and educational purposes regarding multi asset absolute return investment strategies. This half day of training was held on 6 July, and featured training from the Fund's independent advisor, as well as four presentations from the multi asset absolute return managers who have been appointed by the London Collective Investment Vehicle (London CIV).
- 1.2. This meeting was held following an investment strategy review by Mercer, the Fund's Investment Consultant, which recommended that the Fund decrease its exposure to listed equity, and instead introduce a new allocation to a multi asset absolute return investment strategy, with the aim of reducing potential future volatility of the fund's assets, and following the recent rise in the fund's funding level.
- 1.3. This report brings back a report from Mercer (attached in the exempt part of this report Appendix 1), which highlights the rationale behind their recommendation to introduce a new multi asset absolute return investment strategy. The Committee and Board will be asked to make a formal decision about whether to alter the fund's investment strategy to incorporate this in this meeting.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Committee and Board consider the report and recommendation outlined by Mercer in Confidential Appendix 1: namely to decrease the Fund's exposure to listed equity by 7.5%, and to introduce new allocation in the fund's investment strategy for 7.5% to a multi asset absolute return strategy.
- 3.2. It is recommended that the Committee and Board debate and discuss this issue, and after this, take one of the following decisions:
 - Option 1: to take no action and make no changes to the investment strategy: thereby agreeing not to introduce a multi asset absolute return strategy and agreeing to pursue this idea no further.
 - Option 2: to decrease the allocation to listed equity by 7.5%, and introduce new allocation in the fund's investment strategy for 7.5% to a multi asset absolute return strategy, subject to the fund actuary confirming that expected returns will remain consistent with the funding plan.
- 3.3. If the Committee and Board undertakes 'Option 2' above, it is further recommended:
 - 3.3.1 That the Committee and Board agrees to hold a formal fund manager selection meeting with multi asset absolute return managers available on the London CIV: this meeting would be attended by members of the Committee and Board, officers, the fund's independent advisor and investment consultant; and
 - 3.3.2 That the Committee and Board grants delegated authority to the Chief Financial Officer to appoint a multi asset absolute return fund manager based on the outcome of the fund manager selection meeting and the recommendation of those who attend this meeting.

4. Reason for Decision

- 4.1. The fund has experienced large gains over the past 12 months from the buoyancy of equity markets (and the devaluation of Sterling). This has significantly boosted the fund's funding level. Mercer has reviewed the fund's investment strategy, and has made the recommendation regarding multi asset absolute return investments to reduce the volatility of the fund's investments.

5. Other options considered

- 5.1. None.

6. Background information

- 6.1. The most important investment role for the Committee and Board is the setting of an asset allocation strategy. This is the desired allocation to the various asset classes e.g. equities, bonds, property, cash etc. Different asset allocations will have different expected outcomes in terms of future returns and also the predictability of returns.
- 6.2. In setting the current strategy that has a high allocation to equities, whose values have a strong correlation with economic growth, the Committee and Board is focused on funding the promised benefits primarily from investment returns while seeking to minimise / stabilise employer contributions. The Committee and Board is required to keep the strategy under review considering the impact of funding levels and market conditions.
- 6.3. Following the most recent triennial valuation of the pension fund, Mercer conducted an investment review, where they recommended an allocation of 7.5% of the fund's assets to a multi asset absolute return strategy. The basis for this recommendation was to bank some of the returns that the fund has enjoyed in recent years from rising equity markets, and to transfer funds into a strategy that still has growth potential, but should display less volatility than the current allocation to listed equity. This would be a move to 'de-risk' following an improvement in the fund's funding level, (as at March 2017 this was estimated to be around 85% funded).

7. Contribution to Strategic Outcomes

- 7.1. None.

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

Finance and Procurement

- 8.1. The Fund has enjoyed strong returns in recent years primarily from rising equity valuations. The Pension Committee and Board's responsibility is to look to the long term when setting an investment strategy, ensuring an appropriate degree of diversification.
- 8.2. The report from Mercer recommends an allocation to a multi asset absolute return strategy to mitigate the volatility that the fund's equity investments display. Over the past year, this volatility has benefited the fund significantly as equity valuations have grown, however these gains could be reversed at some point if there is a significant stock market correction or fall.

- 8.3. This volatility is inherent to the equity asset class, and this risk is borne by the fund because of the growth potential of equity as an asset class: the allocation to equity is necessary to improve the funding level of the fund with the aim of reaching a 100% funding position.
- 8.4. Any investments made by the pension fund must be consistent with a long term view. Short term, reactive decision making would clearly be inappropriate for an institutional investor such as the pension fund which will be paying pension benefits to members many decades into the future.
- 8.5. Before any new fund managers, asset classes or investment strategies are introduced to the pension fund, proper due diligence will be undertaken, and sound professional advice will be sought. Officers will ensure that the Pensions Committee and Board receive adequate and appropriate training on any new investment techniques or asset classes prior to these being undertaken by the pension fund.
- 8.6. As part of the regular triennial valuation process, it is best practice to review the Fund's investment strategy: this is part of this process.

Legal

- 8.7 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 2016.
- 8.8 Any changes to the allocations must comply with the Pension Fund Investment Strategy Statement. There are no legal implications in respect of the recommendation.

Equalities

- 8.9 There are no equalities issues arising from this report

9. Use of Appendices

- 9.1. Confidential Appendix 1 – Multi Asset Absolute Return Investments

10. Local Government (Access to Information) Act 1985

- 10.1. Not applicable.