

REPORT TO:	PENSION COMMITTEE 17 March 2020
SUBJECT:	Review of the Asset Allocation Strategy
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Resources
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Reviewing and ensuring that the asset allocation strategy for the Council's Pension Fund investments is in line with the assumptions made by the Actuary.	
FINANCIAL SUMMARY: This report proposes an asset allocation strategy for the Pension Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

- 1.1 The Committee is asked to approve the asset allocation strategy as set out in paragraph 3.4.

2. EXECUTIVE SUMMARY

- 2.1 This report presents Members with a proposed asset allocation. Members are invited to comment on the appropriateness of this proposal.

3. DETAIL

- 3.1 This report draws together the threads of the discussions around the review of the Strategy for the Fund into a set of draft recommendation by the Fund's independent investment advisors (Minutes 50/19 and 58/19 refer). The decision to set an asset allocation strategy is a complex issue and a number of factors need to be considered in coming to a view as to what needs to happen. Principal amongst these factors are those related to the aggregate target rate of return for the Fund, the level of risk inherent in the revised structure, practical matters relating to transition management and forecasting cash flows. Mercer, as the Fund's independent investment advisors, have been asked to produce an

analysis of the proposal and this is set out below. Members are invited to refer to Mercer's analysis to inform their considerations.

3.2 The actuarial valuation effective 31 March 2019 has established a target rate of return for the Pension Fund of 4%. The Asset Allocation Strategy proposes an allocation by broad asset class. This is as follows:

Equities	40%	+/- 5%
Fixed Interest	20%	+/- 5%
Alternates	39%	+/- 5%
Cash	1%	

3.3 The variance is necessary to avoid the need to constantly re-balance the portfolio in response to market movements. The proposed strategy (see table in 3.4) breaks the alternates down to a more granular level. These allocations are meant as indicative and it needs to be recognised that certain investments will not fit into a distinct category.

3.4 The table below shows the current strategy, actual allocation and the proposed Strategy.

	Current Strategy	Actual Allocation as at 31 December 2019	Proposed Strategy
Equities	42%	38.7%	40% +/-5%
Fixed Interest	23%	22%	20% +/-5%
Alternates Comprised of:	34%	21%	39% +/-5%
<i>Private Equity</i>	<i>8%</i>	<i>8.4%</i>	<i>8% +/-5%</i>
<i>Infrastructure</i>	<i>10%</i>	<i>11.7%</i>	<i>15% +/-5%</i>
<i>Traditional Property</i>	<i>10%</i>	<i>9.4%</i>	<i>10% +/-5%</i>
<i>PRS</i>	<i>6%</i>	<i>4.6%</i>	<i>6% +/-5%</i>
Cash	1%	5.3%	1%
Total	100%	100%	100%

3.5 Members of the Committee are invited to consider these allocations in the light of Mercer's commentary and comment as they feel appropriate. This commentary is contained in the Investment Strategy Review in Part B of the agenda.

4. FINANCIAL CONSIDERATIONS

4.1 There is always a risk that a particular allocation option does not prove to represent the most efficient mix of assets and the Committee will want to consider this as part of their discussion.

5. OTHER CONSIDERATIONS

- 5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 6.1 The Director of Law and Governance comments that the recommendation set out in this report is within the powers of the Pension Committee as set out in Part 3 of the Council's constitution.

(Approved by: Sean Murphy, Director of Law and Governance and Deputy Monitoring Officer)

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APPENDIX: Appendix A is contained in Part B of this Agenda:
Investment Strategy Review, March 2020