



Investment strategy training

London Borough of Croydon Pension Fund

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Aon Hewitt | Retirement & Investment
Presentation to London Borough of Croydon Pension Fund



Agenda



Introduction & objectives



Setting an investment strategy



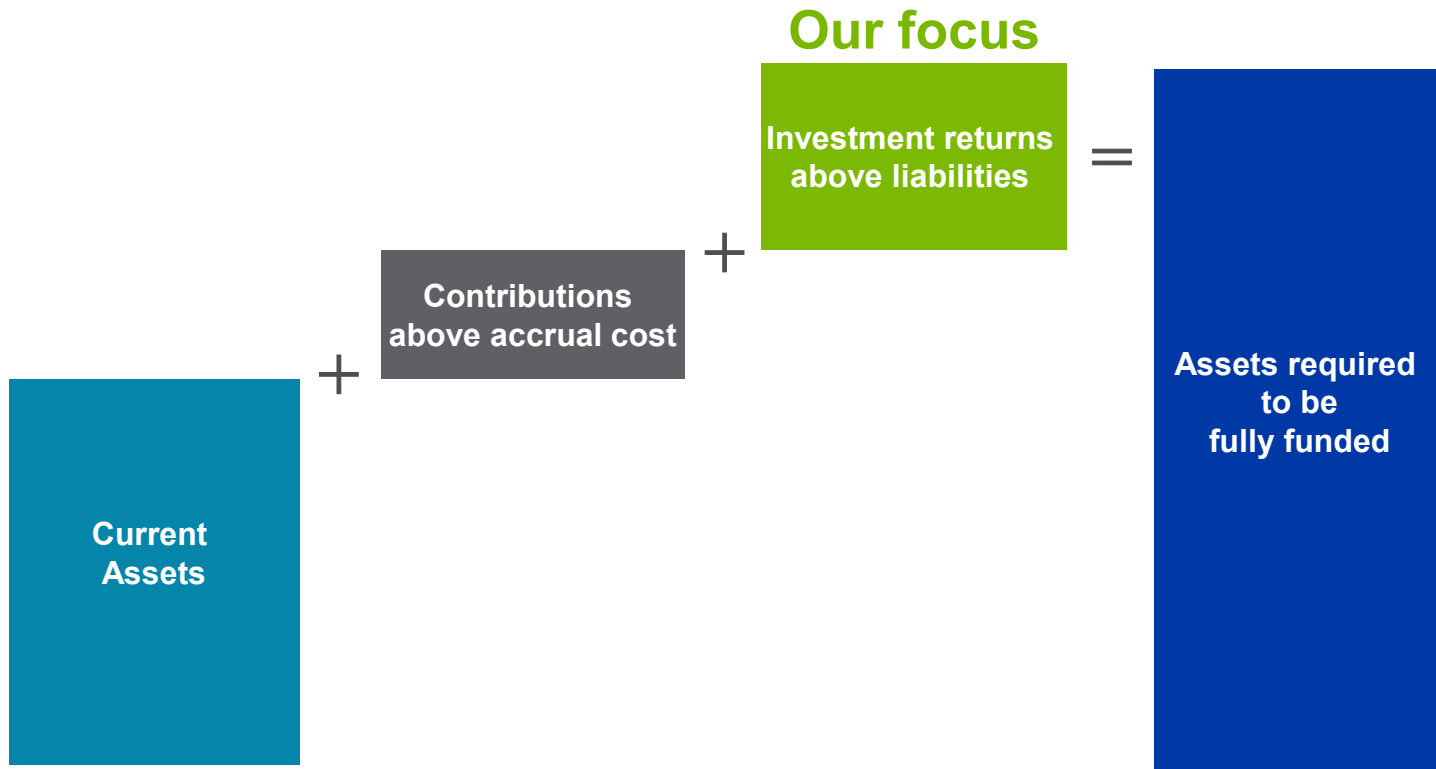
An overview of the current strategy



Introduction & objectives

Objectives – the big picture

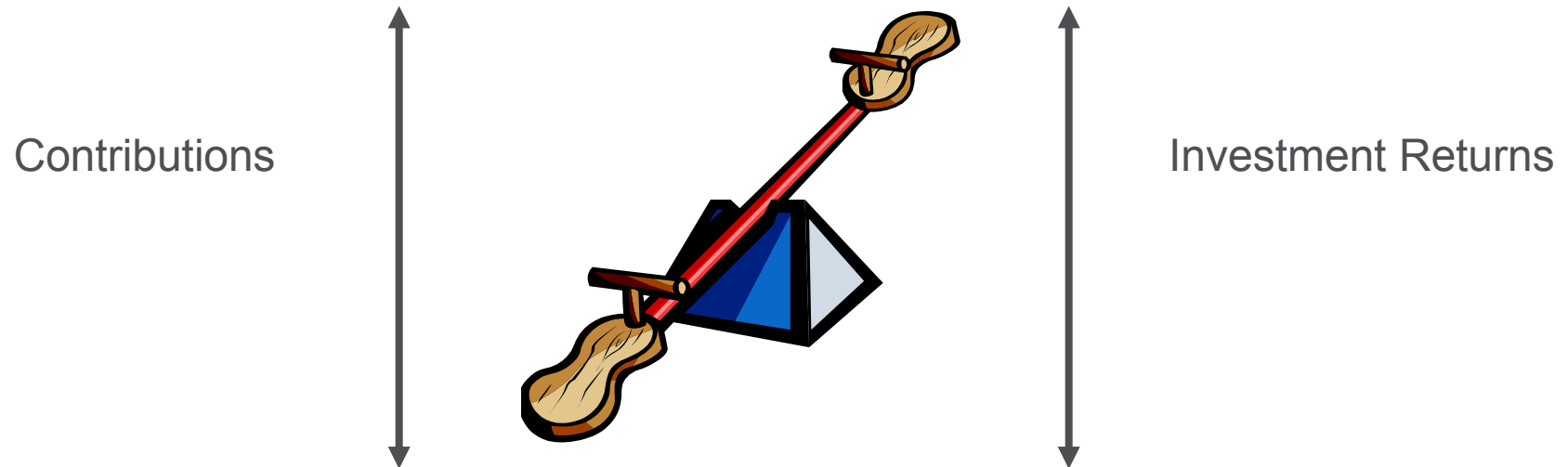
Time



Key objectives

- Ensure that benefits are paid to members.
- Ensure suitability of assets.
- Optimise the anticipated return consistent with a prudent level of risk.

The relationship between investment strategy and contributions

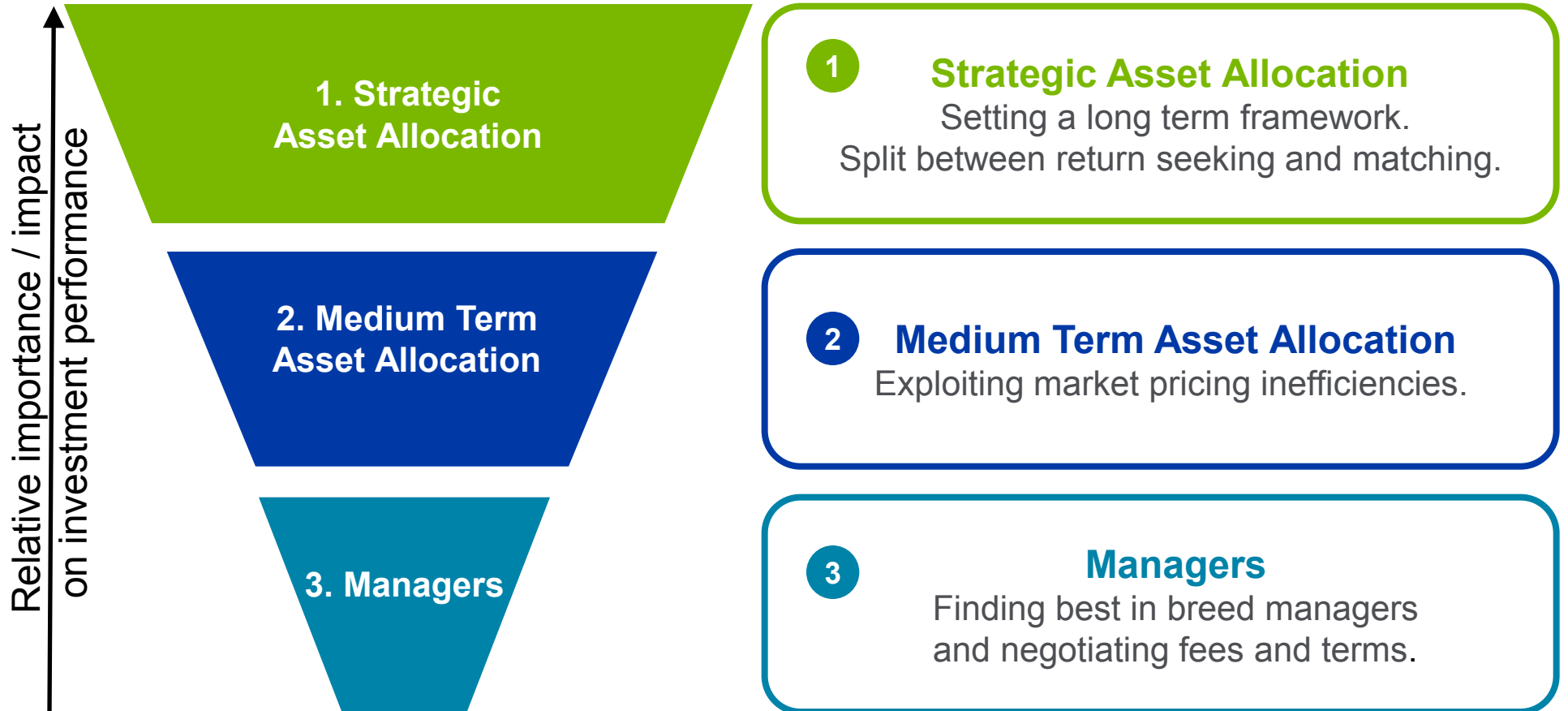


- Aiming for **higher** investment returns enables you to set **lower** contribution rates **today...**
 - ...but it also means a **higher** risk of **NOT** achieving the desired returns in future...
 - ...in which case you will need to set **higher** contribution rates to close the funding gap.



Setting an investment strategy

What drives success?



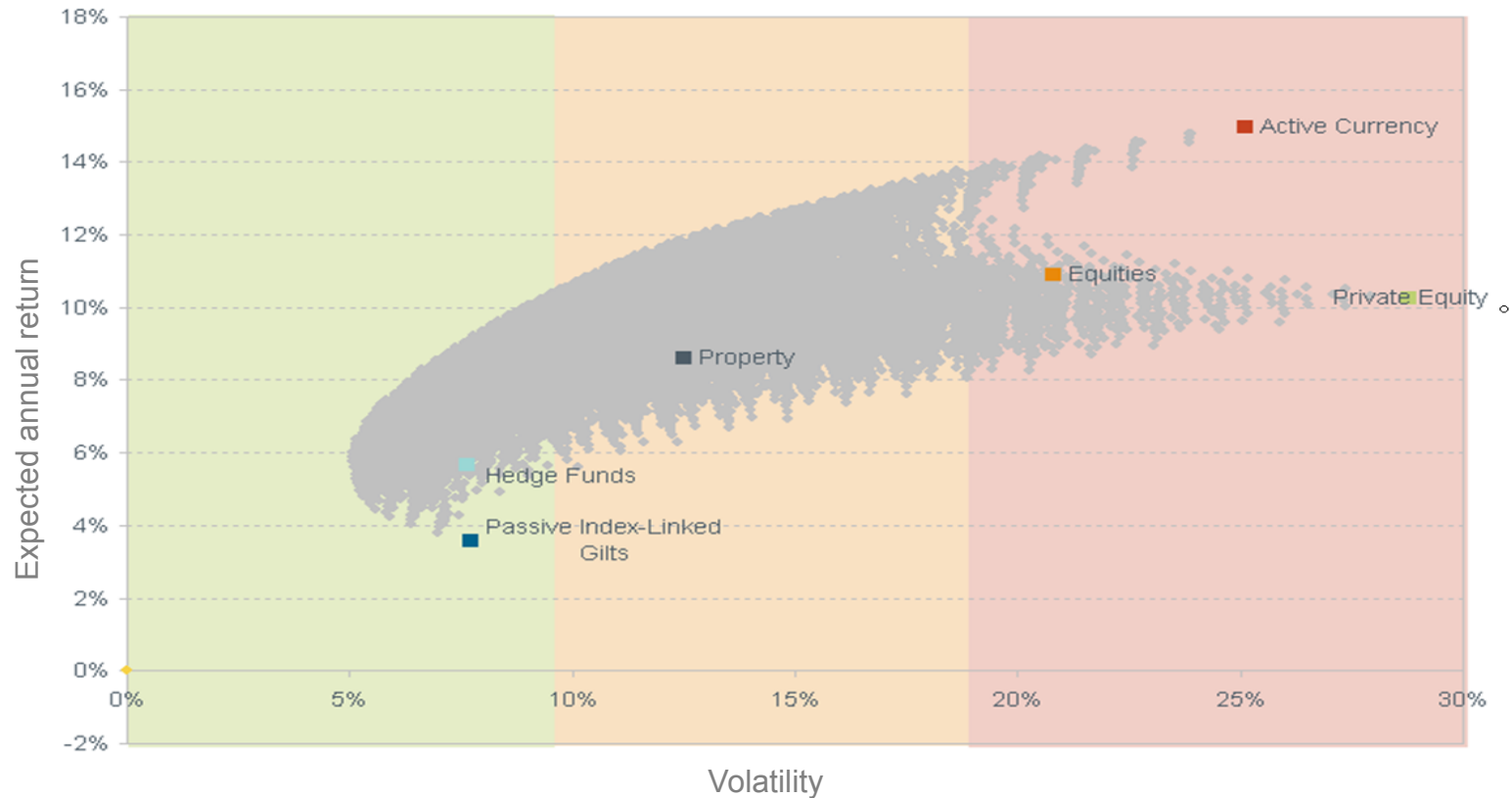
Balancing risk and return

- In order to set investment strategy we need to understand:
 - Required level of **return**:
 - We need to achieve a return linked to the liabilities (e.g. gilts +2.2%pa).
 - **Risk** tolerance:
 - We need to understand the level of risk we are able to take.



What can we do to improve the strategy?

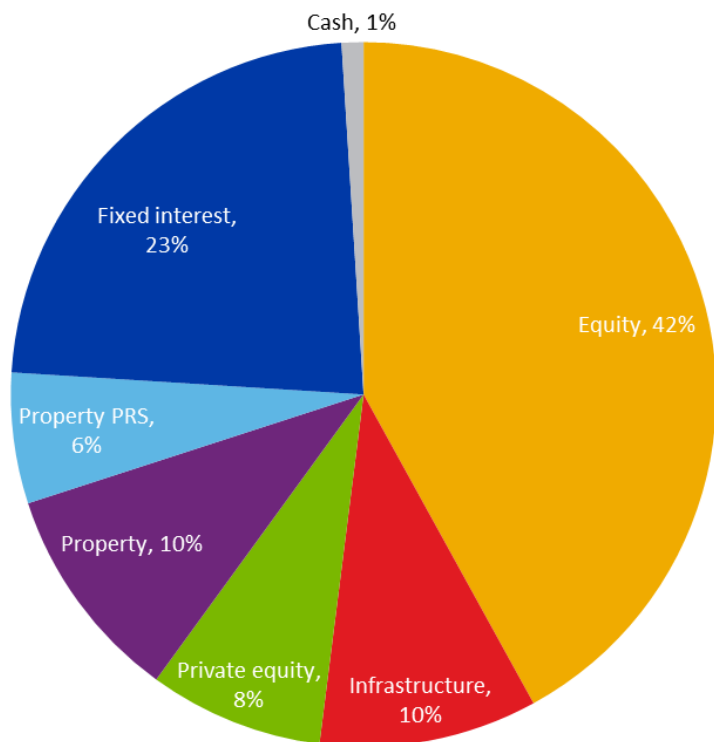
- Introducing assets that are not perfectly correlated will reduce overall portfolio risk.
- **Diversification is key!**





The current investment strategy

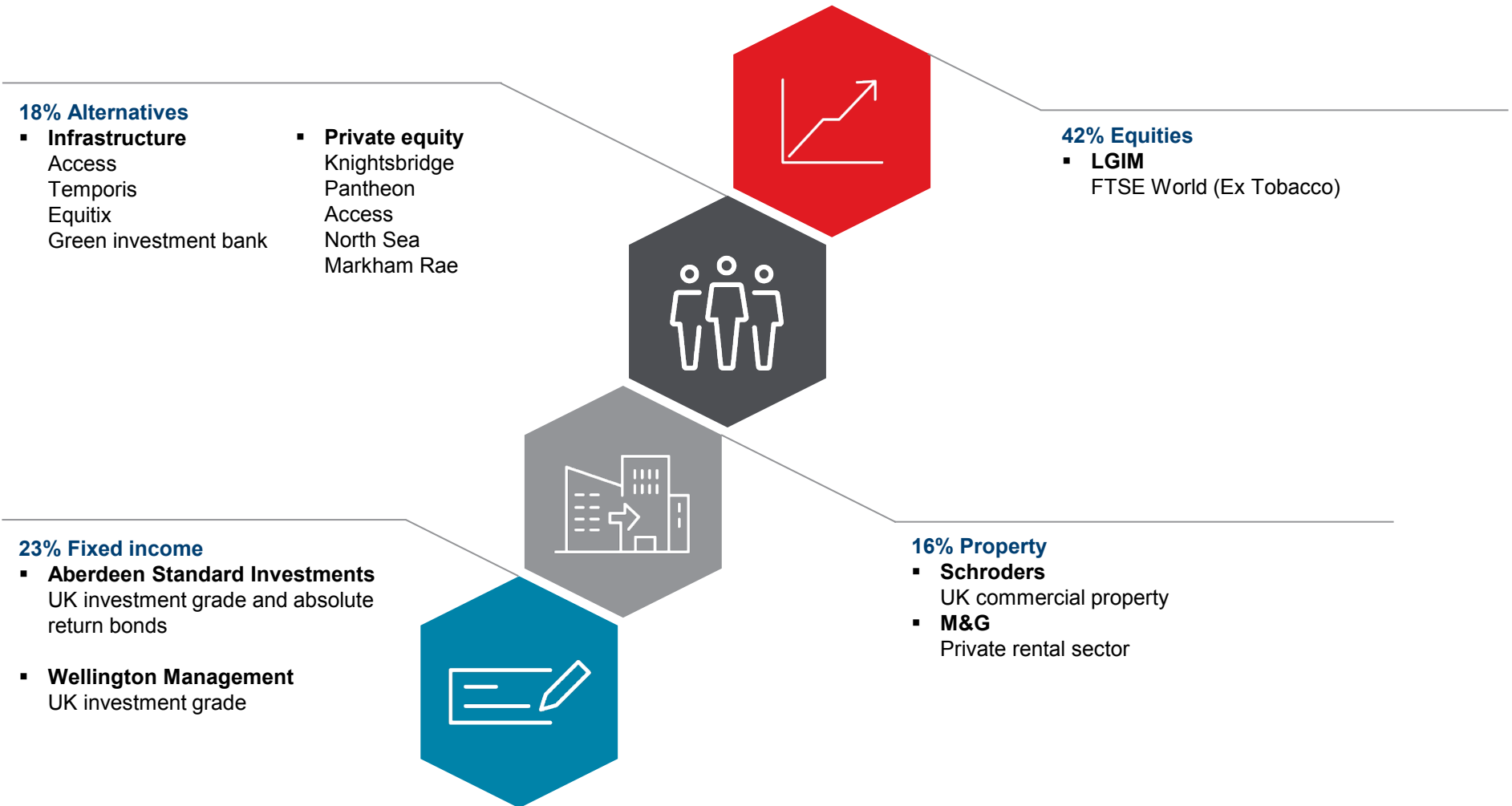
Current funding and investment strategy



- The Objective of the Fund is to provide pension and lump sum benefits
 - in full
 - as and when they fall due

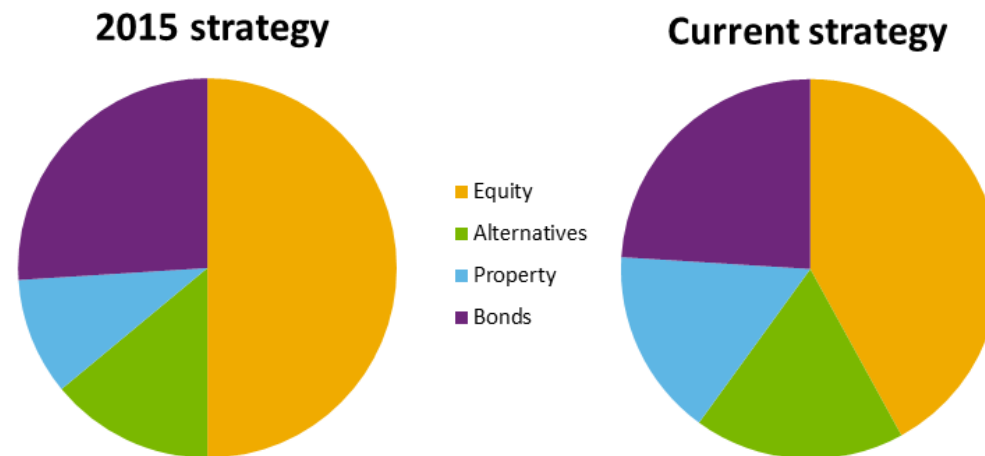
- The investment strategy is expected to:
 - achieve a rate of return in excess of the discount rate,
 - with a level of risk that the Committee consider to be appropriate.
- The discount rate, agreed at the latest actuarial valuation, is:
 - gilt yields plus 2.2% pa.
- The current investment strategy is made up of 76% growth assets and 24% matching assets.
- The Fund remains exposed to some key investment risks such as:
 - Equity risk,
 - Interest rate risk,
 - Inflation risk.

Strategic benchmark asset allocation



Recent activity

- Over the past few years the Committee has taken an active decision to reduce the equity allocation of the Fund.
- The proceeds of selling down equity have been used to invest in additional alternative and property investments, e.g. private rental sector.
- The Fund has also increased its allocation to infrastructure and private equity.
- The next stages of the development of the investment strategy is expected to include a review of the bond portfolio and consideration of private debt opportunities.



Potential future considerations



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