Appendix 1b

Investment Strategy – Consultation meeting 7th March 2017

Attendance

Cllr Robert Chapman

Cllr Geoff Taylor

Cllr Michael Desmond

Cllr Feryal Demirci

Cllr Kam Adams

Jonathan Malins-Smith

Andrew Johnston (Hymans Robertson)

Ian Williams

Michael Honeysett

Rachel Cowburn

Summary of Discussions

- The Investment Strategy consultation meeting was held on 7th March 2017 with the Fund's investment consultant, Hymans Robertson. The meeting allowed Members to discuss proposals for changes to the Investment Strategy in detail with the consultant, ensuring informed decision making.
- The meeting began with a recap of the strategy modelling carried out by Hymans Robertson following the 2016 actuarial valuation, which used stochastic modelling to assess a range of outcomes for the Fund given different investment strategies. The modelling has been used to highlight the probability of success for the different strategies across a fixed time frame, as well as the expected funding level for the worst 5% of outcomes.
- Andrew Johnston provided a market update, highlighting some of the risks posed to the Fund by current economic conditions.
- This was followed by a recap of the proposed changes, with a particular focus on the key strategic elements;
    - a proposed 10% reduction in the Fund's equity allocation to be used to fund an allocation to a multi-asset credit strategy
    - a shift in the UK/Global split within the equity portfolio from 50:50 to 25:75
- Members discussed the pros and cons of a shift away from equity noting that current equity high valuations do leave the Fund exposed, particularly in the event of rising rates. Members also discussed the implications of a move to a multi-asset credit mandate, including the types of credit such a mandate might invest in, which could include high yield bonds, secure loans, asset backed securities and emerging market debt.
- The risks of an allocation to these higher yielding credit types were discussed in detail, particularly with regards to asset or mortgage-backed securities. Andrew Johnston highlighted that the mandate would be targeting the higher credit quality end of the market,

targeting in the region of cash +3-5. The Fund should be focusing on strategies with primarily European exposure. He explained that as the key risk of investment into such a strategy is credit risk, it would be crucial to use a manager with proven experience of successfully managing defaults. If the proposal were to be agreed, it is intended that officers should work together with both Hymans Robertson and the CIV to identify a suitable strategy.

- Members noted that the proposed strategy helps to support the 50% carbon reserves reduction target agreed at the January Committee meeting. Both the overall reduction in the equity allocation and the shift in the UK global split should help to reduce the Fund's exposure.
- The possibility of investment in infrastructure was also considered. The risk return profile of infrastructure as an asset class is considered suitable for the Fund; however, opportunities to invest in it have historically been limited, with the size and internal resources of the Fund a significant limitation. Asset pooling could in time present suitable opportunities; the possibility of a 'special situations' allocation of 0-5% was therefore considered to permit the Fund flexibility in this area if the opportunity arose.