

Title of Report	Strategic Asset Allocation Review - Introduction
For Consideration By	Pensions Committee
Meeting Date	30 March 2023
Classification	Public (including Exempt Appendix)
<u>Ward(s) Affected</u>	All
<u>Group Director</u>	Ian Williams, Group Director Finance & Corporate Resources

1. **Introduction**

- 1.1. This report presents the Pensions Committee with initial proposals for a review of the Fund's Strategic Asset Allocation following the 2022 actuarial valuation. It introduces a number of proposals for discussion, including recommendations to help the Fund achieve its climate targets, meet its cashflow needs and meet levelling up requirements. It is intended that Members carefully consider the recommendations prior to formal approval in April 2023.

2. **Recommendations**

2.1. **The Pensions Committee is recommended to:**

- **Consider the proposals set out in the discussion paper, in particular the recommended revised strategic asset allocation presented in Appendix 1 ("Strawman 1", Pg 16)**

3. **Related Decisions**

- 3.1. Pensions Committee 30 January 2023 - Climate Target Setting
- 3.2. Pensions Committee 15 March 2021 - Investment Strategy Implementation Plan
- 3.3. Pensions Committee 14 January 2021 - Investment Strategy Review - Stage 2: Asset Allocation
- 3.4. Pensions Committee 30 September 2020 - Investment Strategy Review - Stage 1: Setting High Level Investment Strategy

4. **Comments of the Group Director of Finance and Corporate Resources.**

- 4.1. This paper sets out proposals to assist the Committee in developing the Fund's investment strategy. Development of a robust investment strategy helps the Committee to take an ordered and prudent approach to the management of the Fund's assets, helping to manage the long term costs associated with the Pension Fund.
- 4.2. Spending time developing the investment strategy helps to ensure that the Pensions Committee is fulfilling its fiduciary duties and that the Fund's investment objectives and policies are clearly set out in line with the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016. It is emphasised that while the proposals referred to in Appendix 1 speak to the Funds ambition to get to net zero by 2040 and the targets for the LGPS to invest up to 5% of assets in 'local' investments the Pensions Committees fiduciary duties remain paramount and appropriate due diligence will need to be undertaken with regard to estimated returns before making these investments.
- 4.3. There are no immediate financial implications arising from this report.

5. **Comments of the Director of Legal, Democratic and Electoral Services**

- 5.1. The Pensions Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. Reviewing the Fund's Investment Strategy following the 2022 actuarial valuation helps to ensure that the Strategy remains appropriate given the funding position and assists the Committee in fulfilling its fiduciary duty.
- 5.2. Regulation 7 of the 2016 Regulations requires the Administering Authority to formulate an Investment Strategy in line with guidance published by the Secretary of State. Regulation 7(2) stipulates that the authority's investment strategy must include:
- (a) a requirement to invest fund money in a wide variety of investments;
 - (b) the authority's assessment of the suitability of particular investments and types of investments;
 - (c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
 - (d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - (e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - (f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

- 5.3. This paper helps demonstrate that the Committee is investing in line with Regulation 7(2), by carrying out an assessment of the suitability of different types of investments and considering how some of the risks to which the Fund is exposed can be managed through setting an appropriate investment strategy.
- 5.4. There are no immediate legal implications arising from this report.

6. **Background to the report**

- 6.1. This report presents the Pensions Committee with initial proposals for a review of the Fund's Strategic Asset Allocation following the 2022 actuarial valuation. It introduces a number of proposals for discussion, including recommendations to help the Fund achieve its climate targets, meet its cashflow needs and meet levelling up requirements. It is intended that Members carefully consider the recommendations prior to formal approval in April 2023.
- 6.2. The discussion paper presented at Appendix 1 has been prepared by Redington, the Fund's investment consultants, following discussion with officers. It sets out the strategic objectives of the Fund and assesses how the Fund is currently positioned to achieve those objectives. It highlights key areas where action may be required and proposes an updated Strategic Asset Allocation (SAA) that is expected to improve the probability of the Fund achieving its objectives.
- 6.3. The review follows on from the Fund's 2022 actuarial valuation, which saw an increase in the funding level to 106% from 92% at the previous valuation. There have been a number of other key changes since the last review, including:
- A significant change in the Fund's cashflow profile. Benefits outgoing are expected to increase by 10.1% from April 2023 in line with inflation linked pension increases, whilst the Council's contribution rate is set to reduce from 30% to 27% of payroll. As the Fund matures and inflation remains elevated cashflow is likely to become an increasing area of focus.
 - New climate targets. The Fund's ambition is to reach net zero by 2040, and the Committee are therefore now considering ambitious new interim targets to monitor progress and ensure the Fund remains a leader in this field.
 - New levelling up requirements and expected changes to pooling guidance. The 2022 Government White Paper set out targets for the LGPS to invest up to 5% of assets in 'local' investments, whilst updated pooling guidance for LGPS funds is expected later this spring.
- 6.4. The first section of the discussion paper (Pgs 4-11) covers Research and Objectives, and follows on from the recent survey that the Committee and officers completed. It provides the context to setting the investment strategy

by considering the impact of the key changes highlighted above as well as reviewing the Fund's risk return profile. It then formalises the Fund's objectives and aims of the strategic review in a Pension Risk Management Framework (PRMF).

6.5. The aim of the PRMF is to:

- Ensure that all key stakeholders are aligned on the same objectives;
- Frame and prioritise decisions against their contribution to achieving those objectives; and
- Monitor progress against these objectives to ensure appropriate action can be taken quickly.

6.6. The next section of the paper (Pgs 12-15) builds on the newly-formed objectives and covers Strategy. It outlines a set of proposals for changes to the Fund's SAA to help increase the probability of the Fund achieving its objectives. These proposals include suggested allocations to multi asset credit, impact property and nature based solutions.

6.7. An overview of the proposals and their impact on the Fund's SAA if agreed can be found on Pg 16 of Appendix 1. The overview sets out 2 potential revised SAAs, one including all 3 allocation changes set out in Section 6.6, and the other including only impact property and nature based solutions. The impact of the changes is considered against the following metrics:

- Expected return
- Value at Risk
- Scope 1 & 2 CO₂ emissions
- 2°C disorderly transition risk
- Implied temperature rise
- % in income producing assets

Pg 18 then summarises the proposed changes by setting out their impact on the PRMF.

7. **Decision Making and Next Steps**

7.1. The Pensions Committee meeting on 30th March will provide the Committee with the opportunity to consider the report in detail and discuss its contents with Redington and officers of the Fund. Agreeing the Fund's SAA is one of the most important strategic decisions taken by the Committee; members are therefore asked to consider carefully the proposals presented in this report and to request clarification on any aspects requiring further detail.

7.2. It is anticipated that a final version of the proposals will be brought to the next meeting of the Pensions Committee in April 2023, when a request for formal approval will be made.

7.3. Once the high level asset allocation has been agreed, work can begin on

identifying the most appropriate route (either direct or via the London CIV) to implementation for any agreed changes. It is anticipated that this work will take place during Q1 2023/24, with initial recommendations being brought to the June 2023 Pensions Committee.

Appendices

Appendix 1 (EXEMPT) - Strategic Asset Allocation Review

By Virtue of Paragraph(s) 3 Part 1 of schedule 12A of the Local Government Act 1972 this report and/or appendix is exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Background documents

None

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