

Pension Fund Investment Sub Committee

19 May 2014

Review of Investment Strategy

Recommendation

That the sub-committee discuss the strategic asset allocation of the fund based on the findings from Hymans Robertson.

1 Introduction

- 1.1 Further to the actuarial valuation carried out as at 31 March 2013, it was agreed that there would be a formal review of the Fund's investment strategy. This is an appropriate time to carry out such a review as the investment consultant has current information on the Fund's membership following the valuation, clarity on the details of the new LGPS Scheme, and confirmation of the contribution strategy being recommended by the actuary.

2. The High Level Strategy

- 2.1 In order to review the high level investment strategy, the approach known as Asset Liability Modelling (ALM) is used. This enables the consultant to consider the chances of the Fund achieving its long term objectives in conjunction with the associated risks.
- 2.2 In our modelling, the estimated liabilities of the Fund are taken from the latest actuarial valuation and projected forward the possible evolution of the Fund's assets and liabilities under a range of different scenarios. Within the 5,000 simulations tested, there are a wide range of assumptions around returns for each of the asset classes as well as different levels of future inflation and interest rates. This allows consideration of the likelihood of different funding levels and contribution rates in the future.
- 2.3 A detailed presentation will be distributed in advance of this meeting and will address the following issues as part of the exercise:-
- Given the combination of the current investment strategy and contribution strategy (with agreed stabilisation measures), what are the chances of meeting the Fund's long term objectives?
 - How would those chances be affected by adopting a higher or lower risk investment strategy? What would be the implications for risk in either approach?

- What would be the impact on likely contribution rates should there be any change in the investment strategy?
- Is there a position where reductions in investment risk would be more compelling?
- What is the medium / long term outlook for the Fund's cash flow position?

3. Detailed asset allocation

3.1 Once the high level investment strategy has been agreed in 2.3, the next step will be to look at the asset allocation and investment manager arrangements at the July and November sub-committee meetings.

3.2 Broad areas for consideration will include:-

- The allocation of equities between active and passive management, including some of the newer alternative forms of passive management? Is the current number of managers optimal?
- The allocation to other 'diversifying growth assets' appropriate (infrastructure, hedge funds, multi-asset etc.) Are there other opportunities available to the Fund?
- The current split between fixed income active and passive management and between absolute return and traditional mandates appropriate in the current environment?

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