Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**09 October 2014**
Subject:	**Asset Allocation**

Summary:

This report updates the Committee following the first meeting of the working group to discuss asset allocation, following the asset liability study undertaken by Hymans Robertson.

Recommendation(s):

That the Committee consider and agree the proposals put forward by the asset allocation working group.

Background

1. Following the 2013 Triennial Valuation, the Funds investment consultant, Hymans Robertson, was asked to undertake an asset liability study to ascertain whether the current strategic benchmark was still fit for purpose to allow the Lincolnshire Pension Fund to meet its objective, namely to ensure that funds are available to pay pension liabilities over the long term. The initial report was taken to the July meeting of this Committee, and the Committee agreed the high level allocation between growth assets and low risk assets.

2. It was agreed that a working group should be set up to discuss the allocation within those two areas, and to report back to the October meeting of this Committee with proposals. The first meeting was held on Monday 22nd September and the group consisted of Councillor Jackson, the pensions and treasury manager, the investment manager, the independent advisor and the Fund's investment consultant.

3. The objective of an Asset Allocation exercise is to identify a portfolio that has a high enough return to meet the scheme's actuarial liabilities in the long term, whilst damping down the volatility of the market value of the

portfolio in the near term. Asset allocation is more "art than science", so there will be a range of such possible portfolios. The desirable outcome is one that maximises return for a given volatility, or alternatively minimises volatility for a given return. Peter Jones will be happy to give a visual explanation of this to the committee at its meeting, should it so wish.

4. It is worth noting that the outcome of the DCLG's consultation on the use of Collective Investment Vehicles (CIV's) and passive management is still outstanding. This was considered in the discussion within the working group.

5. The asset allocation is split between the two areas of growth assets and low risk assets. The growth assets are 86.5% of the Fund and include the equity, property and alternative investments. The low risk assets are 13.5% of the Fund and are the bond investments. In addition, the Fund has a currency overlay program on an element of the equity allocation. The paragraphs below capture the discussion and proposals across each asset area.

6. **Equities**

Current allocation: 20% UK passive, 20% Global ex UK enhanced passive and 20% Global active.

- UK and overseas split – currently one third/two thirds. 20% in UK should be the maximum, could potentially bring this down to 15%.

- Global ex UK mandate – 20% is the maximum with one manager. Performance excellent over all time periods. No change required.

- Global active – review these to understand whether they are doing what we require. Is there another way of getting the same or greater return whilst reducing the volatility and in a more cost effective way? Potential to increase allocation to passive but through the use of alternative indices?

Proposal:

- For the working group to review the requirements of the active equity allocation and consider alternative options.

7. **Property**

Current allocation: 11.5%, including approximately 2% committed to/invested in infrastructure.

- Should infrastructure sit within property or stand alone?

- Separate out core property investments and "other" property investments, and report separately.

- Agree property strategy.
- Review all investments and how managed.

Proposals:

- For the working group to review the current property investments and strategy.
- To consider a higher dedicated allocation to infrastructure to be achieved in the longer term and maintaining a 10% allocation to property.

8. **Alternative Investments**

Current allocation: 15%

- Current allocation to stand – no changes required.

9. **Bonds**

Current allocation: 13.5% of which 6.75% is passive and 6.75% is absolute return.

- Current overall allocation to stand.
- Absolute return allocation to remain.
- Review passive allocation.

Proposals:

- For the working group to review the current split of passive funds, which is 50% corporates, 30% index linked and 20% overseas governments, with a view to moving the overseas allocation to UK Government bonds.

10. **Currency Overlay**

Current allocation: overlay the 20% Global ex UK equity mandate.

- Review requirement for currency overlay.

Proposals:

- For the working group to review the use of a currency overlay strategy.

Conclusion

11. Following discussion, the working group requests that the Committee consider the following proposals across the asset classes:

- Equities - For the working group to review the requirements of the active equity allocation and consider alternative options.
- Property - For the working group to review the current property investments and strategy.
- Property - To consider a higher dedicated allocation to infrastructure to be achieved in the longer term and maintaining a 10% allocation to property.
- Bonds - For the working group to review the current split of 50% corporates, 30% index linked and 20% overseas governments, with a view to moving the overseas allocation to index linked.
- Currency - For the working group to review the use of a currency overlay strategy.

Consultation

a) Policy Proofing Actions Required

n/a

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.