



**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

Report to:	Pensions Committee
Date:	07 January 2021
Subject:	Investment Strategy Update (January 2021)

Summary:

This report updates the Committee on the Fund's Investment Strategy, and how it is being implemented.

Recommendation(s):

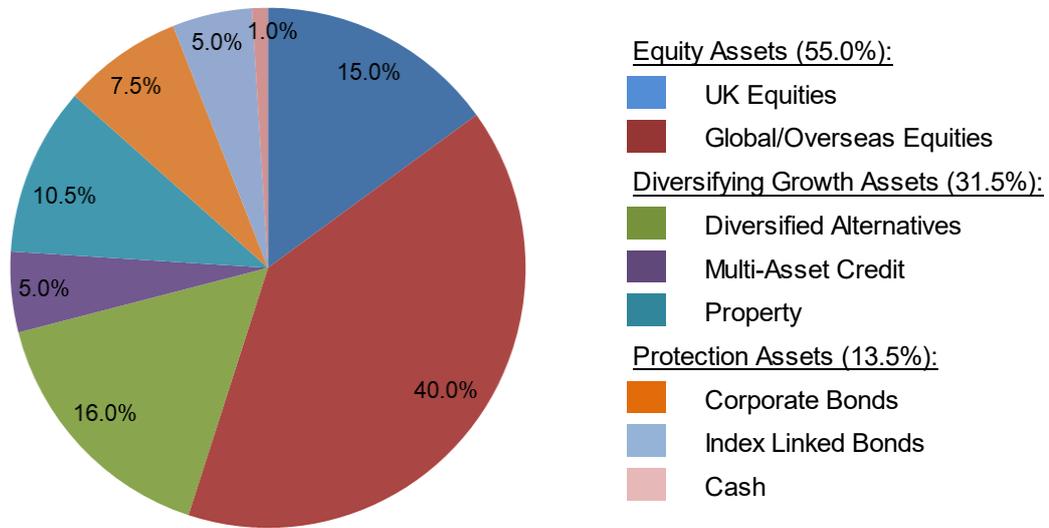
That the Committee note the report.

Background

1.0 Investment Strategy

- 1.1 The Fund's asset allocation is split into three areas: equity assets; diversifying growth assets; and protection assets. As part of the 2019 valuation the investment strategy was reviewed with the Committee. It was agreed that the split between equity and the diversifying growth assets (at 86.5%) and the protection assets (at 13.5%) was still appropriate, however there was some room for manoeuvre between the equity assets and the diversifying growth assets, to marginally reduce the volatility.

1.2 The new target asset allocation is shown below:



1.3 At its meeting in January 2020 this Committee received a report on how the new investment strategy could be implemented under pooling. This report updates the Committee on progress implementing the investment strategy, areas where changes are still to be made and areas of the portfolio where further consideration is required. The following sections of the report will address the three parts of the portfolio in turn and provide an update on progress.

2.0 Equity Assets

Current Mandate	Manager and Fund	Current allocation %	Potential plan under pooling	Target allocation %
UK Equities - passive	Border to Coast – UK Listed Equity Fund	15.0	Already transitioned into a Border to Coast fund.	15.0
Global Equities ex UK (low risk active)	Invesco	22.5	The Fund will transition out of the Invesco mandate early in 2021. 15% of the portfolio will be moved to the Legal and General Future World Fund. This has a low carbon/ESG tilted index and was chosen as it provides a good fit with the Committees investment beliefs.	15.0

Global Equities (high conviction active)	Border to Coast – Global Equities Alpha Fund	17.5	Already transitioned into a Border to Coast fund. As part of the transition from the Invesco mandate is it planned that an additional 7.5% will move into this fund. The investment consultant has advised that this increase should not significantly affect the risk profile of the overall fund.	25.0
Total		55.0		55.0

3.0 Diversifying Growth Assets

Current Mandate	Manager and Fund	Current allocation %	Potential plan under pooling	Target allocation %
Diversified Alternatives	Morgan Stanley	15.0	Border to Coast is building an alternatives structure that will allow allocations across private equity, private debt, infrastructure and other alternatives. Once all sleeves are active and Border to Coast has proven the capacity and capability to manage a diversified alternative mandate, the Fund will transition from the Morgan Stanley mandate. This is not expected until 2021, at the earliest.	16.0
Infrastructure	5 funds	2.5	The Fund currently has a separate allocation to infrastructure, plus some additional infrastructure investments within the diversified alternatives mandate managed by Morgan Stanley. Future infrastructure investment will be made through the Border to Coast diversified alternatives mandate, once that is available.	-
Multi Asset Credit (MAC)	PIMCO	3.5	An early investment has been made with PIMCO, who will become the core MAC manager for the Border to Coast Multi Asset Credit fund. The Committee approved an initial 3.5% allocation to this fund in June 2019. This will increase to 5.0% once the Border to Coast MAC fund is available (expected Q2 2021) and the additional allocation will replace the MAC holdings currently within the Morgan Stanley mandate.	5.0

Property	9 funds (4 UK Commercial Fund, European Growth Fund and 4 property venture funds)	9.0	Border to Coast is currently building their property offering. This will comprise direct property holdings with some external specialist funds.	9.0
Property	Hearthstone (UK residential fund)	0.0	The Committee agreed an investment of £37m (or 1.5%) to the Hearthstone Residential Fund in July 2020. The fund has had its first close and expects to start drawing down funds from Q1 2021.	1.5
Total		30.0		31.5

4.0 Protection Assets

Current Mandate	Manager and Fund	Current allocation %	Potential plan under pooling	Target allocation %
Composite bonds (Gilts, index linked, corporate bonds)	Blackrock	6.0	Retain index linked gilts on a passive basis. Border to Coast have an internally managed low risk alternative, which may be considered at some point in the future.	5.0
Short dated corporate bonds	Border to Coast Investment Grade Credit Fund	7.5	Already transitioned into a Border to Coast fund.	7.5
Cash		0.5	Small cash allocation in benchmark to cover cash flows.	1.0
Total		14.0		13.5

5.0 Next steps for Lincolnshire

- 5.1 The Fund has made good progress with pooling assets. Assets have transferred into three Border to Coast Sub-Funds over the past 18 months. This represents 41.0% of Fund assets.
- 5.2 Future work with Border to Coast and Partner Fund will focus on the solution for property assets and completing the build for all sleeves for alternative assets, including the Border to Coast solution for managing partner funds legacy alternative assets.
- 5.3 Officers will continue to update the Committee on progress with developments at Border to Coast through the quarterly meetings and monthly letters as necessary.

Conclusion

- 6.1 The Investment Strategy was reviewed as part of the triennial valuation process, and presented to the Committee in September 2019, December 2019 and January 2020. This report sets out the progress made in transitioning assets into Border to Coast Sub-Funds and other funds to align the fund's holdings with the investment strategy.
- 6.2 Fund officers continue to work with the Investment Consultant and Border to Coast, as the Fund's chosen pool, to align current holdings with the investment strategy. As future opportunities are identified information will be brought back to the Committee for consideration.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

This page is intentionally left blank