

	Pensions Fund Sub-Committee 16 July 2020
	Report from the Director of Finance
Investment strategy: transition roadmap	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	One 1. Investment strategy: transition roadmap (June 2020)
Background Papers:	▪ Review of Investment Strategy - 25 February 2020
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance Sawan Shah, Senior Finance Analyst

1.0 Purpose of the Report

- 1.1 The purpose of this report is to detail the investment strategy transition roadmap prepared by the Fund's investment advisors, Hymans Robertson.

2.0 Recommendation(s)

- 2.1 The Committee is asked to:
- Note the overall report;
 - Comment on the proposal to re-address the balance between the Diversified Growth Funds;

3.0 Detail

- 3.1 In February 2020, the Committee agreed to the investment strategy review undertaken by the Fund's investment advisors, Hymans Robertson.
- 3.2 In summary the investment strategy review considered:

- An expansion of the committee's Responsible Investment beliefs in light of the increased focus on, and importance of, this area;
 - The current long term strategy is fit for purpose from a returns perspective as it is expected to return in excess of the required return;
 - A 5% increase in the long term allocation to equities, and a 5% allocation to private debt, both funded from "diversifiers";
 - To introduce a global low carbon mandate as part of the Fund's equity allocation;
 - A degree of rebalancing takes place on a regular basis to try and prevent too much deviation from the desired strategic allocation.
- 3.3 The following paragraphs, together with the details set out in Appendix 1, summarise the actions being taken to move the investment strategy towards the strategic target allocations agreed in February 2020.
- 3.4 It is acknowledged that transitioning to the targets agreed in February will be fluid in practice and will depend on numerous factors including market conditions and the attractiveness of investment opportunities in the relevant asset classes.
- 3.5 Subject to approval by the Committee at this meeting, the Fund will introduce a low carbon equity mandate, investing £25m to £30m of existing cash holdings (c3% of Fund assets) in a passive low carbon equity fund.
- 3.6 The agreed infrastructure allocation will be built up over time. The Fund has undrawn commitments of c£50m to the London CIV infrastructure fund and c£12m to Alinda. While the Fund builds its investment in infrastructure, interim allocations to equity and cash will be increased as a proxy for future infrastructure investments. A 5% allocation to equities/cash (split 3%/2%) is expected to deliver a similar long-term risk/return profile to 5% in diversifiers.
- 3.7 The Fund's multi-asset funds (Baillie Gifford and Ruffer) had contrasting fortunes during Q1, with the more defensively positioned Ruffer fund performing better during the initial market downturn. At 31 March 2020, the Fund held £111m with Baillie Gifford and £50m with Ruffer. The Committee is asked to consider the balance between Baillie Gifford and Ruffer, acknowledging the different investment styles.
- 3.8 As outlined in the Covid-19 report on this agenda, the Fund has a 10% long-term strategic target allocation to property but has only c£0.1m invested at the present time. Due to uncertainty, it is proposed to pause any potential investment into this asset class until there is greater clarity in property markets. In the longer term options to access this market will need to be considered, both, through and outside, London CIV.

4.0 Financial Implications

- 4.1 These are no direct financial implications arising from this report. Financial implications will be considered when changes to the Fund's investments are presented to the committee for decision.

5.0 Legal Implications

5.1 Not applicable.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance