

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Committee

Date: 28th March 2019

Report by: Head of Pensions

Subject:	Investment Strategy
Purpose of the Report	The purpose of this report is to present to the Pension Committee for approval the revised Investment Strategy recommended by the Investment Sub Committee.
Recommendations	The Committee are asked to: 1) Approve the Strategic Asset Allocation set out in paragraph 4.1. 2) Approve the revised Investment Strategy Statement
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1. Purpose of the report

- 1.1. The purpose of this report is to present to the Pension Fund Committee for approval the revised Investment Strategy recommended by the Investment Sub Committee.

2. Background

- 2.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”) came into force on 1st. November 2016.
- 2.2. The Regulations set out the requirement for the preparation and publication of the Fund’s Investment Strategy Statement (ISS). The Investment Sub Committee (ISC) reviews the (ISS) annually.
- 2.3. The ISC has performed a detailed review of the Fund’s Strategic Asset Allocation (SAA) during 2018, culminating in the agreement of a revised Strategy at the meeting of the ISC on 14 February 2019 to be presented to the Pension Fund Committee for approval.

- 2.4. The Fund's Investment Strategy is reflected in the ISS which, following agreed process, should be reviewed by the ISC before being presented to the Pension Fund Committee. However, due to the delay in determining the proposed revisions to SAA, the revised ISS is being presented to the Pension Fund Committee without initial review by the ISC.

3. Changes arising from the revised Strategic Asset Allocation

- 3.1. The previous SAA (reproduced below for reference) was approved by the Pension Fund Committee at the meeting on 23 March 2017.

Asset Class	Benchmark Allocation	Tolerance (range)
Equities	65.0%	+/- 5% (60.0%-70.0%)
Fixed Income	12.0%	+/- 3% (9.0%-15.0%)
Alternatives	23.0%	+/- 5% (18.0%-28.0%)
Total Target Allocation	100.0%	

- 3.2. At the February 2019 meeting, the ISC agreed the new SAA of 58% Equities, 12% Fixed Income, Property 10% and 20% Alternatives.
- 3.3. The key attributes of the this diversified approach are that it:
- Should help protect gains in funding and reduce the sensitivity of the assets to an equity stress event, which in turn should help contribution rates remain stable or trend downwards.
 - Should manage risk more effectively, and would be expected to broadly maintain the expected return above the liabilities so as not to increase reliance on the underlying employers.
- 3.4. The return and risk metrics of the proposed strategic allocation are shown below:

	Current SAA	Diversified Portfolio
Expected Return above cash	4.4%	4.4%
Proportion of total return provided by equity	68%	60%
1 year 95% Value at Risk (VaR)	£816m	£807m
Proportion of total risk provided by equity	48%	45%

- 3.5. If the proposed high level SAA is approved, Mercer will work with Officers to propose implementation options. In formulating these proposals, consideration will be given to the availability of suitable options through the ACCESS pool (where these exist).

4. Presentation in the Investment Strategy Statement

- 4.1. The amended SAA table in the ISS is as follows:

Asset Class	Benchmark Allocation	Tolerance (range)
Equities	58.0%	+/- 5% (53.0%-62.0%)
Fixed Income	12.0%	+/- 3% (9.0%-15.0%)
Alternatives	30.0%	+/- 5% (25.0%-35.0%)
Total Target Allocation	100.0%	

- 4.2. The SAA includes tolerance ranges for each asset class within which they can vary from the strategic target. Flexibility is necessary, particularly for the illiquid Alternative assets, as they would take time to grow to the target level and when the target was achieved, could not be rebalanced readily.
- 4.3. As a result of the change in SAA, the tables showing the linkage of the strategic asset classes to the investment risk factors and the graph presenting the Value at Risk (VaR) has been updated accordingly.

5. Other changes to the Investment Strategy Statement

- 5.1. Other minor changes have been made to the ISS to update it to the February 2019 position, particularly with regards to asset pooling and to improve clarity.
- 5.2. A copy of the revised ISS is attached as Appendix A.

6. Future revisions to the Investment Strategy Statement

- 6.1. Continue to review the ISS and amend accordingly if there are any material impacts.

7. Recommendation

- 7.1. The Committee are asked to:

Approve the Strategic Asset Allocation set out in paragraph 4.1.
Approve the revised Investment Strategy Statement.

8. Relevant Fund objectives

<p><i>Objective 1</i></p> <p>Have robust governance arrangements in place, to facilitate informed decision-making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.</p>
<p><i>Objective 3</i></p> <p>Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.</p>
<p><i>Objective 5</i></p> <p>Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.</p>
<p><i>Objective 18</i></p>

Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.

9. Risk Management

9.1. The Pension Fund Committee have the authority to review and maintain the ISS.

9.2. The risks associated with implementing the strategy have been captured in the Fund's risk register as detailed below.

Risk register	Risk mitigated	Residual risk
Investment (Risk 3)	Investment decisions and portfolio management may not maximise returns or be performed in accordance with instructions provided.	Green
Investment (Risk 5)	Fund assets are not sufficient to meet obligations and liabilities as they become payable.	Green
Investment (Risk 11)	Mismatch in asset returns and liability movements result in increased employer contributions.	Green

9.3. The Fund's full risk register can be found on the Fund's website at the following link:
<http://pensions.northamptonshire.gov.uk/governance/key-documents/cambridgeshire/>

10. Communication Implications

10.1. The revised ISS will be published on the Fund's website when it has been approved by the Pension Fund Committee.

11. Legal Implications

11.1. None

12. Consultation with Key Advisers

12.1. None

13. Alternative Options Considered

13.1. None

14. Background Papers

13.2. ISC papers on the Investment Strategy Review –14 February 2019.

15. Appendices

15.1. Appendix A – Revised Investment Strategy Statement.

15.2. Appendix B – Tracked changes version compared to current Investment Strategy Statement.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here	Not applicable
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 15 March 2019
Has this report been cleared by Head of Pensions?	Mark Whitby – 12 March 2019
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 13 March 2019
Has this report been cleared by Legal Services?	Fiona McMillan – 13 March 2019

