

Non-Executive Report of the: Pensions Committee 24 th September 2019	
Report of: Neville Murton, Corporate Director, Resources	Classification: Unrestricted
Asset Allocation Review and Rebalancing of Portfolio	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All wards

Summary

The Committee reviews investment manager performance on a quarterly basis. The paper attached as Appendix A to this report is a detailed paper prepared by the Fund's investment manager; Mercer detailing investment and rebalancing options available to the Fund.

Recommendations:

In respect of the investment options available to the Fund, the Pensions Committee are recommended to:

- Consider and agree to recommendations of the Fund's investment adviser discussed in part B of this meeting.
- Consider and agree to a strategic asset allocation to Infrastructure and or Renewable Energy;
- Note that capital deployment to Infrastructure and Renewable energy could take a period of 2 to 5 years due to the nature of the asset class;
- Consider the proposal to increase the asset allocation to Diversified Growth Fund (DGF) by 6% as the interim solution. Thereby increasing total strategic asset allocation to DGF from 20% to 26% in the interim;
- Consider and agree the long term option for infrastructure and or renewables investments. Which are:
 - i.) Invest in the current LCIV infrastructure offering which offers a 25% allocation to renewable energy;
 - ii.) Request that the LCIV launch a dedicated Renewable Infrastructure Fund;
 - iii.) In the event that the LCIV is not able to launch a dedicated strategy, then a DIY approach in conjunction with other interested London Boroughs.

In respect of short term rebalancing of underweight asset classes in the Fund, the Pensions Committee is recommended to:

- Consider and agree to a 5.6% reduction in the actual asset allocation of equity to fund the current strategic asset allocation underweight in bonds (0.8%), DGF

(3.1%), Multi-Asset Credit (0.2%) and Property (1.0%).

1. REASONS FOR THE DECISIONS

- 1.1 The Investment Strategy Statement (ISS) has been set out to reflect the funding position of the Fund and the investment beliefs of the Committee. These proposed changes to the strategic asset allocation would warrant a change in the ISS.
- 1.2 An interim option of investing in Diversified Growth Fund (DGF) has been proposed by the investment adviser. It should be noted by the Committee that as the portfolio evolves over time, the risk and return metrics at the total Fund level would be expected to remain broadly comparable. The view of the investment adviser is that investing in DGFs is likely to have a slightly higher risk and a higher equity beta component however the increased risk is not sufficient to cause undue concern.
- 1.3 Given the positive contribution the current allocation in equity has exhibited, actual asset allocation currently exceeds the strategic asset allocation. This overweight has been predominantly in the Baillie Gifford Global Equity Fund where actual asset allocation currently exceeds strategic asset allocation by 3.3%.

2. ALTERNATIVE OPTIONS

- 2.1 This proposed change in strategy is a step towards the Committee's commitment toward a low carbon economy through positive investment in renewable energy and at the same time meeting the Fund's strategic investment requirements.

3. DETAILS OF REPORT

3.1 Strategic Asset Allocation Changes

Some asset classes within the Fund have struggled more than others. In particular Absolute Return Fixed income has struggled to provide attractive returns in current markets.

- 3.2 Officers will provide the Committee with an amended Investment Strategy Statement based upon option agreed by the Committee.

The table below summarises the proposed and interim asset allocation changes detailed in Appendix A of this report.

Asset Class	Current Strategic Asset Allocation %	Asset Allocation with Interim Option %	Target Asset Allocation %
Equity	50	50	50
DGF	20	26	20
Property	12	12	12
Index Linked Gilts	6	6	6

Multi Asset Credit	6	6	6
Absolute Return Fixed Income	6	0	0
Total	100	100	100
Expected Return	4.1%	4.2%	4.2%

3.3 Rebalancing Proposal

The table below shows the current over weights and underweights as at 30 June 2019. The Committee is asked to agree to consider and agree to a decision on potential rebalancing of asset portfolio, given several sub-portfolios notably equity have now materially deviated from their strategic weightings.

Asset Class	Actual %	B'mark %	Over/Under Weight %	Proposed Change
Equity (total over weight 5.7%)				
Schroders Equity (equity protection)	9.5	9.0	0.5	Utilise to fund underweight below
LGIM Global Equity	5.6	5.0	0.6	Utilise to fund underweight below
LGIM Global Equity (GBP Hedged)	1.5	1.0	0.5	Utilise to fund underweight below
LGIM Global Low Carbon Equity (GBP Hedged)	15.8	15.0	0.8	Utilise to fund underweight below
Baillie Gifford Global Equity	23.3	20.0	3.3	Utilise to fund underweight below
Diversified Growth Fund				
Baillie Gifford DGF	8.6	10.0	-1.4	Increase to strategic allocation level
Ruffer DGF	8.3	10.0	-1.7	Increase to strategic allocation level
Multi Asset Credit				
CQS Multi-Asset Credit	5.8	6.0	-0.2	Increase to strategic allocation level
Absolute Return Fixed Income				
Insight	2.9	3.0	-0.1	No change
GSAM ARFI	3.3	3.0	0.3	No change
Property				
Schroders property	10.1	12.0	-1.9	Increase to strategic allocation level
Index –Linked Gilts				
Schroders Index-Linked Gilts (equity protection)	5.0	6.0	-1.0	No change

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The performance of the Fund's strategy is monitored through a quarterly report that is presented to the Committee.
- 4.2 Both the interim solution of investing in DGF suggested by Mercer and the long term option of investing in infrastructure and or renewable energy is not without risk.

5. LEGAL COMMENTS

- 5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 govern the way in which local authorities are expected to deal with investment of pension funds. Local authorities should take a prudential approach to investment, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk.
- 5.2 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate having regard to these matters, for the Committee to receive information about asset allocation and ensure that funds are being managed in accordance with the Administering Authority's Investment Strategy Statement.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 This report helps in addressing value for money through planning to have a rigorous and robust investment strategy in place to aid in bridging the Fund's funding gap.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Any form of investment inevitably involves a degree of risk.
- 9.2 To minimise risk the Investment Panel attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- [None]

Appendices

Appendix 1 – Asset Allocation Review by Mercer

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

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