



LOCAL PENSION COMMITTEE – 24 JANUARY 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

OVERVIEW OF THE LEICESTERSHIRE PENSION FUND ASSET ALLOCATION STRATEGY

Purpose of the Report

1. The purpose of this report is to provide the Committee with an overview of the Leicestershire Pension Fund's (the Fund) current strategic investment allocation, activity in year (See Appendix A) and a summary of the proposed future allocation developed by Hymans.

Background

2. The nature of the Fund's liabilities is long-term. The strategic investment benchmark is structured to reflect the nature of liabilities by focusing on the need for long-term returns and a degree of inflation-linked returns. Market fluctuations will cause the Fund's actual asset allocation to vary from the agreed strategic asset allocation and investment within asset classes in which funding is 'drawn down' over a period of time will create further variation. The strategic benchmark should, therefore, be considered an 'anchor' around which the actual asset allocation is managed.
3. The Fund is part invested in funds administered by LGPS Central (Central), a private company jointly owned by the Fund and seven other administering authorities. By pooling investment Central aims to reduce costs and improve investment returns to the ultimate benefit of Fund employers. Central's product offer continues to develop and the strategy review has been undertaken with this in mind. Dialogue continues with Central and other partner funds to ensure that Central's offer meets the goals of the Fund. It is likely to be many years before the majority of the Fund is transferred to Central. This is partly due to the Fund's unlisted and illiquid investments as well as the time taken by Central to develop investment options.
4. The Hymans Strategic Asset Allocation recommendations have been reviewed by Central together with Officers from Leicestershire County Council Pension Fund. Central's review at this stage helps to ensure that there is a strong link between the products being developed and the requirements of the Fund's strategy.

Required Investment Return and Current Performance

5. The strategic investment benchmark is designed around the required future investment return and an acceptable level of risk. Without this clarity it would be possible to have a strategy that targets a return that is very high but takes overly

large risks and as a result has too high a possibility of failing to achieve its target – thereby putting unnecessary upward pressure onto employers’ contribution rates. Likewise, a target that is too low may be easily achieved, but has very little probability of producing the returns needed to lessen future employers’ contribution increases.

6. The Fund currently targets an investment return of 5.9% per annum which is in line with Funding Strategy being adopted post the 2019 triennial review. As at 31 March 2019, the date of actuarial valuation the value of the Fund’s assets was £4.3 billion.
7. The triennial review as at 31 March 2019 showed the Fund had an 89% funding level which had improved from 76% as at 31 March 2016.

Current Strategic Allocation

8. The Fund’s current asset strategy and structure was approved by the Local Pension Committee on 25 January 2019.
9. Since the review the Pension Fund has transferred its active listed global and emerging markets equities to LGPS Central’s equivalent products and entered into an agreement with Central to provide advisory services for some asset classes.
10. As of the 30 September 2019 the assets of the Fund which are currently managed/advised by Central, or passively managed by Legal and General Investment Management (LGIM) i.e. deemed to be pooled, are as follows:

Asset Class	Asset Class	% of Fund [1]		
		Central Investment Services	Central Advisory Services	Passive (by LGIM)
Equities	Global Equities (Active)	8%		
Equities	Global Emerging Markets Equities (Active)	4%		
Equities	Global Equities (Passive & Factor Based)			33%
Equity	Private Equity	[Note 2]		
Real Assets	Property		9%	
Alternatives	Targeted Return		12%	
Alternatives	Emerging Market Debt		3%	
TOTAL		12%	24%	33%
TOTAL			69%	

[1] At 30 September 2019, Source: Portfolio Evaluation

[2] £10million committed.

Equities

11. Our equity positions are outlined below:

Manager	Asset Class	% of Fund [1]
LGIM	UK (large cap exposure capped)	4
LGIM	UK market cap passive	3
LGIM	Regional market cap passive (ex UK)	17
LGIM	Factor based - RAFI (N America & Europe)	9
LGPS Central	Active Global Equities	8
LGPS Central	Active Emerging Markets	4
LGPS Central	Private Equity	<1 [Note 2]
Various others	Private Equity	5
Total	Equities	50
Total Pooled	Including LGIM passive	45
	Excluding LGIM passive	12

[1] At 30 September 2019, Source: Portfolio Evaluation.

[2] £10million committed, approximately 5% invested.

12. Except for the Fund's unlisted private equity, all the Fund's equity investments are being managed by Central or are being managed passively.

Real income assets

13. Our real income positions are outlined below:

Manager	Asset Class	% of Fund [1]	
Kames	Index linked gilts	8	8
IFM	Infrastructure	2	5
KKR		1	
JPM		2	
Stafford	Timberland	3	3
Aviva	Property – fund of funds	4	9
Kames	Property – indirect (smaller lots)	2	
Colliers	Property - direct and indirect	3	
TOTAL	Real Income Assets	25	25

[1] At 30 September 2019, Source: Portfolio Evaluation.

14. Appendix A contains details of the holdings and view to mapping to Central offerings. Leicestershire have expressed interest in a Central sub fund for Property and Infrastructure.

15. The product development protocol that highlights the stage of LGPS Central product development is attached to this report as Appendix B.

Alternative investments

16. Our alternative investment positions are outlined below:

Manager	Asset Class	% of Fund [1]	
Ruffer	Targeted Return	4	12
Aspect		3	
Pictet		4	
Millennium	Currency Overlay	-	-
Ashmore	Opportunities – Emerging Market Debt	3	9
JPMorgan	Opportunities - Credit	1	
Partners	Opportunities – Private Credit	5	
M&G	Opportunities – Other	2	3
CRC	Opportunities – Other	1	
InfraCap	Opportunities – Other	<1	
Standard Life	Opportunities – Other	<1	
TOTAL	Alternative Investments	24	24

[1] At 30 September 2019, Source: Portfolio Evaluation.

17. Appendix A contains details of the holdings and view to mapping to Central offerings for emerging market debt, multi asset credit and targeted return where discussions have commenced.

Key Proposed Changes

18. The annual refresh of the strategic asset allocation is outlined in the table below. Details of the changes are included within an exempt paper.

Asset class	Target Allocation Jan 2020 % Lower & Upper limits
Listed Equities	40.00 44.00
Private equity	4.75
Total Equity	44.75 48.75
Index linked bonds	5.00
Infra / Timberland	9.75
Property	10.00
Real assets	24.75
Targeted Return	7.50
Emerging Market Debt	2.50
Investment grade credit	3.00
Liquid multi-asset credit	4.00
Global credit and opportunity	10.50
Alternatives	27.50

Supplementary Information

An exempt paper providing further detail of the proposed changes to the Fund's target allocation, which is of a sensitive nature, is included elsewhere on the agenda.

Recommendation

The Committee is asked to note the report

Equality and Human Rights Implications

19. None.

Background Papers

Report to the Local Pension Committee – 25 January 2019 – Annual Review and the Asset Strategy and Structure

<http://politics.leics.gov.uk/ieListDocuments.aspx?CIId=740&MIId=5803&Ver=4>

Appendices

Appendix A: 2020 January investment mapping to pool

Appendix B: LGPSC Product Dev Protocol v1.1 Dec 2019

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