



LOCAL PENSION COMMITTEE – 11 SEPTEMBER 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2021 PENSION FUND STRATEGIC 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) approach to refreshing the strategic asset allocation for 2021.

Background

2. The nature of the Fund's liabilities is long-term. The strategic asset allocation 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 current strategic asset allocation (SAA) for 2020 was approved at the January 2020 committee. Hymans Robertson the Fund's advisor produced the current strategy with input from officers and was reviewed by Central and officers from Leicestershire County Council. Central's review helped 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 not 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% pa which, has a 50% change of being achieved or bettered over the next 20 years based on the current investment strategy. The actuarial valuation used a 3.8% pa, this rate has been set such that there is a 80% likelihood of it being achieved over the next 20 years, again based on the current investment strategy. The triennial approach is necessarily more prudent, as it considered the implication on employer contributions should investment returns only meet the lower end of expectations. This prudence provides more stability for employers and minimises the potential for a significant funding gap to be created.

2021 Strategic Asset allocation

7. Officers have engaged Hymans Robertson to commence work on the 2021 SAA with a view to completion for the January 2021 committee meeting. Their draft scope is included within the appendix.
8. The objectives combine supporting a long-term funding approach that is consistent with a stable and affordable contribution approach from the employers, while removing any funding shortfall over no more than 17 years. The expectation is that the shortfall recover period reduces over time.. The investment strategy is intended to be set to achieve these funding objectives.
9. The Fund’s climate risk report is being produced by LGPS Central during the same timeframe and officers will allow Hymans view of results that would further the Fund’s RI ambitions.
10. The review will take into account the risks and opportunities presented since the last SAA was set. 2020 has not been a ‘normal’ year by any stretch and implications could be far reaching with more uncertainty than many previous revisions.
11. The SAA review will therefore consider, market background, required returns, expected returns and associated risks. Specific markets and strategy contained within the Hymans scope include, property, currency hedging and the opportunities markets such as distressed lending.

Recommendation

12. The Committee is asked to note the report

Appendices

Appendix A: Hymans SAA scope

Equality and Human Rights Implications

None.

Officers to Contact

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