

ASSET ALLOCATION REVIEW

This note sets out the steps comprising the asset allocation review for the Croydon Pension Fund. The process should ensure that the governance arrangements supporting the decision are adequate and appropriate.

The end product of this process will be a recommendation to the 10th March 2015 meeting of the Pension Committee. That recommendation will relate to the mix of asset classes that the Pension Fund should be invested in, the proportions of the portfolio in each asset class, and a recommendation about appropriate investment styles. The report will establish a timescale for the process of selected managers for each asset class. There will be four stages:

1. Pension Committee, 2nd December, 2014;
2. Two Half-Day training sessions, 10th December 2014 and 14th January 2015;
3. Workshop, January 2015; and
4. Pension Committee, 10th March, 2015.

This next section discusses the detail behind each session. Each session will be open to all Committee members.

Pension Committee, 2nd December 2014

Two subjects that are pivotal to the review will be covered in the agenda for the Pension Committee in some depth.

The first session will be delivered by Alison Murray, Principal Consultant with AON Hewitt. Governance arrangements must underpin the review process and are attracting a great deal of attention from central government with recent consultations and the introduction in April 2015 of new arrangements locally and nationally. This session will tie in the process of reviewing the asset allocation with the work of the Pensions Board and the role of professional advisors to the Pensions Committee.

The second session sits within the remit of the authority's Scheme Actuary and relates to the Scheme's liabilities. Hymans Robertson will deliver a survey of the actuarial process and tie this in with their recent work that looks at funding levels across the whole LGPS as well as the various strategies that could be employed.

Training Sessions

The third area that Committee members need to be comfortable that they understand relates to asset classes.

To ensure a clean process with distinctly defined roles, this session will be facilitated by an independent, qualified consultant. John Raisin has held a number of senior roles, including Chief Finance Officer at Northamptonshire County Council and Director of Finance at the London Borough of Waltham Forest. He is a qualified Chartered Accountant and holds the Investment Management Certificate.

The session will aim to provide an introduction to the asset classes open to the LGPS, their characteristics, associated risk profiles and the function each plays within the portfolio. There will be two sessions separated by a tea break:

Session 1 will address Strategic Asset Allocation covering briefly liabilities, assets, funding level, then going on to explain what Strategic Asset Allocation is and why it is crucial, issue of need for growth portfolio, role of equities, diversification, correlation and conclusion.

Session 2 will talk about Asset Classes and will cover listed equity, bonds/fixed income, multi sector credit, property, infrastructure, hedge funds, private equity, commodities, and diversified growth funds.

As an understanding of the investment landscape is so fundamental to the review process the essential components of this session will be revisited in the training exercise, described below.

This session will take place in the morning of 10th December, 2014 at BWH or the Town Hall.

Asset Allocation Training Exercise

Schroders have developed a training option aimed at trustees and elected members that allows for a hands-on experience of the process of making asset allocation decisions. Although essentially light hearted the exercise does provide an insight into the complexity surrounding these decisions and the challenges of getting it right. As this training is supported by senior managers of a global fund manager this represents a valuable opportunity to reinforce the training covered above. Further, this type of activity typically attracts a high level of support from attendees.

This session could be augmented by a session covering property as an asset class. Schroders manages the Croydon current allocation to this asset class and has an interest in the development of assets located within the borough. Hence this session will be engaging and relevant as well as focussed upon the development of the local business economy.

This session will take place on the morning of 14th January 2015 at the Schroders offices in the City of London.

Workshop

The workshop will be facilitated by AON Hewitt and delivered in January 2015. The outputs from this event will inform the recommendations of the report that will be discussed at the next meeting of the Pensions Committee. With the benefit of a solid grounding in the key issues Committee members will be able to explore themes around: liability matching; deficit funding; growth assumptions; cost control measures; and cost impact upon other Scheme employers - affordability. The workshop should deliver a risk budget that the Committee deems appropriate; guidance around allocations to equities, fixed interest and alternatives; and red lines around options that are not suitable.

AON Hewitt will draft the resulting Committee report.

Pension Committee, 10th March, 2015

The final stage of the process would be for AON Hewitt to present their report to the Pensions Committee outlining their recommendation, based on outputs from the

workshop, for an asset allocation strategy. The strategy would specify appropriate asset classes for the portfolio, including recommendations around investment styles. Selection of fund managers would follow on from this exercise but not form part of this process.

The report could indicate the timescale over which any allocation should happen but would not cover issues such as transition costs and fee reductions.

As outlined above, this process will attract fees c. £35,000. This cost will be a charge to the Pension Fund.

In addition to delivering an asset allocation strategy this process will ensure that many of the training deliverables expected of the Pensions Committee are achieved.