

Croydon Council

REPORT TO:	PENSION COMMITTEE 9 June 2015
AGENDA ITEM:	7
SUBJECT:	Asset Allocation Review
LEAD OFFICER:	Richard Simpson, Assistant Chief Executive (Corporate Resources and s.151 Officer)
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This review is to ensure that the positioning of the Pension Fund has the best chance of meeting the long-term goal of ensuring adequate liquidity over the long-term for the Croydon Scheme.	
FINANCIAL SUMMARY: All costs associated with the review will be a charge to the Pension Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

For general release

1. RECOMMENDATIONS

1.1 This report recommends that the Pensions Committee:

1.1 Agree the revised indicative asset allocation, as set out in paragraph 3.6.1

1.2 Subject to agreement of the above recommendation, instruct officers to commence the process of redeeming the Hedge Fund investment by informing the fund manager of the Croydon Pension Fund's intention to redeem shares in the fund;

1.3 To agree that a report is brought back to the next meeting of this Committee confirming options for new investment areas in alternatives and a timescale for implementing any changes.

If the

2. EXECUTIVE SUMMARY

- 2.1 This report recommends a change to the indicative asset allocation currently applied to the Pension Fund in order to reduce the level of volatility of returns and to increase the likelihood of meeting the Fund's long-term goals.

3. DETAIL

- 3.1 The Pension Committee is currently nearing the conclusion of a review of the strategic asset allocation for the Pension Fund. Since December 2014 the Committee has committed time and resources to detailed and in-depth discussions about the nature and behaviour of different asset classes and liabilities as well as the principles underlying asset allocation and the defining characteristic of good corporate governance. This process has provided the Committee with an understanding of the context to decisions around establishing and allocating a risk budget and setting a performance target for the Fund. This report presents the outcome of that process and recommends an option for an asset allocation which meets those expectations.
- 3.2 The Pension Fund exists to meet all the liabilities accruing to the Croydon Local Government Pension Scheme as they fall due. In setting a strategy that will achieve that goal the Committee should seek to ensure that the long term costs to Council Tax payers are minimised and that a prudent approach to meeting the Fund's liabilities and to maintaining or enhancing capital is adopted. Specifically, the investment strategy should aim to achieve a rate of return of at least the discount rate of 5% and to meet the target of being fully funded by 2035, consistent with the assumptions set out in the actuarial valuation.
- 3.3 The work undertaken by Aon Hewitt, the Fund's investment advisors, suggests four scenarios. The first two assess the impact of additionally diversifying the growth component of the portfolio or reducing the fund's exposure to market risks through the use of conventional bonds. The third and fourth options are concerned with the application of liability matching techniques.
- 3.4 As the Committee has discussed on a number of previous occasions, ensuring investment returns are sufficient to meet the future forecast for liabilities in the current uncertain economic landscape remains a challenging goal which will only be achieved by the careful expenditure of the risk budget. Therefore the option to adopt a strategy that limits that alternative is not recommended. Likewise, liability driven investment strategies are more relevant when there is more flexibility to take risk out of the investment strategy and therefore for future consideration only.
- 3.5 As far as asset allocation is concerned, having modelled the scenarios briefly sketched above, Aon Hewitt's work recommends a shift in emphasis away from the current equity allocation to investing more in alternate investment opportunities. The modelling suggests that this would generate an increase in the 10-year expected relative return coupled with a reduction in the risk measure. Overall the revised strategy should reflect a marked increase in the likelihood that the long-term funding goals be met.

Recommendations

3.6 This report therefore recommends that the Pensions Committee:

3.6.1 Agree the revised indicative asset allocation, as follows:

Asset Class	Current Allocation	Recommended Revised Allocation
	(%)	(%)
Equities	50	41
Bonds	25	25
Cash	1	1
Alternatives:		
Traditional Property	10	11
Private Rental Sector Property	0	5
Private Equity	5	6
Infrastructure	5	11
Hedge Funds	4	0
Total Portfolio	100	100

3.6.2 If the revised allocation is agreed, officers will commence the process of redeeming the Hedge Fund investment by informing the fund manager of the Croydon Pension Fund's intention to redeem shares in the fund;

3.6.3 Agreement is also sought that a report is brought back to the next meeting of this Committee confirming options for new investment areas in alternatives and a timescale for implementing any changes.

4. FINANCIAL CONSIDERATIONS

4.1 All costs of this review have been charged against the Pensions Fund. In the longer term improved returns will reduce the overall cost to the Council.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

Approved by Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor & Director of Democratic & Legal Services

CONTACT OFFICER:

Nigel Cook, Head of Pensions and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS: none

APPENDICES

Investment Strategy Review, Asset Liability Modelling Results, Aon Hewitt, 14 May 2015