County Buildings, Stafford
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Pensions Committee

Friday, 7 February 2020
10.00 am
Oak Room, County Buildings, Stafford

John Tradewell
Director of Corporate Services
30 January 2020

A G E N D A

PART ONE

1. **Apologies**

2. **Declarations of Interest**

3. **Minutes of the meeting held on 27 September 2019** (Pages 1 - 4)

4. **Minutes of the Pensions Panel held on:** (Pages 5 - 10)

   (a) 20 September 2019
   (b) 3 December 2019

5. **Strategic Asset Allocation Review 2019** (Pages 11 - 34)

   Report of Director of Corporate Services and Hymans Robertson

6. **Training Needs Analysis and Training Policy 2020/21** (Pages 35 - 48)

   Report of Director of Corporate Services

7. **Exclusion of the Public**

The Chairman to move:

'That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A of the Local Government Act 1972 indicated below'

PART TWO

8. **Exempt minutes of the meeting held on 27 September 2019** (Pages 49 - 58)
(Exemption paragraph 3)

9. **Exempt minutes of the Pensions Panel held on:** (Pages 59 - 76)
(Exemption paragraph 3)

(a) 20 September 2019
(b) 3 December 2019

10. **LGPS Regulations - Admission of New Employers to the Fund** (Pages 77 - 84)
(Exemption paragraph 3)

Report of the Director of Corporate Services

11. **Local Government Pension Scheme (LGPS) - LGPS Central Pool Governance and Financial Reporting - Final Audit Report 2019/20** (Pages 85 - 114)
(Exemption paragraph 3)

Report of the County Treasurer and the Director of Corporate Services

12. **LGPS Central Ltd Budget and Strategic Business Plan 2020/21 and Cost Savings Model Review** (Pages 115 - 164)
(Exemption paragraph 3)

Report of the Director of Corporate Services and the County Treasurer

Membership

Mike Allen (Co-Optee)	Peter Noskiw (Co-Optee)
Philip Atkins, OBE	Bob Spencer
Nigel Caine (Co-Optee)	Mike Sutherland
Mike Davies (Vice-Chairman)	Stephen Sweeney
Derek Davis, OBE	Martyn Tittley
Ann Edgeller	Kevin Upton (Co-Optee)
Colin Greatorex (Chairman)	Michael Vaughan (Co-Optee)
Phil Jones (Co-Optee)	

Note for Members of the Press and Public

Filming of Meetings

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Recording by Press and Public

Recording (including by the use of social media) by the Press and Public is permitted from the public seating area provided it does not, in the opinion of the chairman, disrupt the meeting.

Minutes of the Pensions Committee Meeting held on 27 September 2019

Attendance

Ben Adams	Colin Greatorex (Chairman)
Mike Allen (Co-Optee)	Phil Jones (Co-Optee)
Mike Davies	Stephen Sweeney
Derek Davis, OBE	Kevin Upton (Co-Optee)

Also in attendance: Ian Jenkinson (Pensions Board Member)

Apologies: Philip Atkins, OBE, Bob Spencer, Mike Sutherland, Martyn Tittley and Michael Vaughan.

PART ONE

17. Declarations of Interest

The following Member declared an interest in accordance with Standing Order 16.5:-

Member	Minute No.	Interest	Reason
Colin Greatorex	21	Personal	Deferred Member of the Staffordshire LGPS

18. Minutes of the meeting held on 28 June 2019

RESOLVED – That the minutes of the meeting of the Pensions Committee held on 28 June 2019 be confirmed and signed by the Chairman.

19. Minutes of the Joint Meeting of the Pensions Committee and Pensions Board held on 12 July 2019

RESOLVED – That the minutes of the joint meeting of the Pensions Committee and Pensions Board held on 12 July 2019 be confirmed and signed by the Chairman.

20. Minutes of the Pensions Panel held on 14 June 2019

RESOLVED – That the minutes of the meeting of the Pensions Panel held on 14 June 2019 be noted.

21. Staffordshire Pension Fund Annual Report and Accounts 2018/19

The Committee were informed that, under regulations, the Pension Fund had to publish an Annual Report and Accounts by 1 December each year. The external auditors were also obliged to issue a statement on the accounts contained within the annual report to confirm that they were consistent with those published in the County Council's Statement of Accounts.

The Director of Corporate Services submitted the draft Annual Report and Accounts 2018/19 for the Staffordshire Pension Fund.

The Pension Fund accounts were also included within the County Council's Statement of Accounts and the Committee noted that the Fund's external auditors, Ernst and Young (EY) had reported the outcome of their audit to the County Council's Audit and Standards Committee on 30 July 2019. Since then EY had reviewed a draft copy of the Pension Fund Annual Report and Accounts and would shortly be issuing their statement confirming that the accounts within the annual report were consistent with those included within Staffordshire County Council's Statement of Accounts for the year ended 31 March 2019.

The Committee noted that, in March 2019, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued Guidance for Local Government Pension Scheme Funds on Preparing the Annual Report. As the guidance was relatively late in being issued and proposed many changes to the content of the annual report, specifically to encompass various information and metrics on Local Government Asset Pools, it was acknowledged that for the 2018/19 report, changes were to be done on a 'best endeavours' basis.

Members noted that there were still minor amendments being made to the document, including the Auditors Statement but, given the Committee did not meet again until 17 December 2019, timing had dictated that the Committee should receive the Annual Report in its draft form.

RESOLVED – (a) That the draft Staffordshire Pension Fund Annual Report and Accounts 2018/19, (attached at Appendix 2 to the report), be approved whilst noting the need for minor amendments (including an updated external auditor's statement on page 85) and that the final version of the Report and Accounts be signed off by the Chairman prior to publishing the document before 1 December 2019.

(b) That the separate report (ISA260) from the Fund's external auditors, Ernst and Young (EY), entitled; Staffordshire Pension Fund Audit Results Report for the Year ended 31 March 2019, (attached at Appendix 3 to the report) be noted.

22. LGPS Central Annual Report 2019

The Committee received LGPS Central Limited's Annual Report and Financial Statements for the year ended 31 March 2019.

RESOLVED – That LGPS Central Limited's Annual Report and Financial Statements for the year ended 31 March 2019 be noted.

23. Exclusion of the Public

RESOLVED - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the Local Government Act 1972 indicated below.

PART TWO

The Committee then proceeded to consider reports on the following issues:

24. Exempt minutes of the meeting held on 28 June 2019
(Exemption paragraph 3)

25. Exempt minutes of the meeting of the Pensions Panel held on 14 June 2019
(Exemption paragraph 3)

26. Additional Voluntary Contributions (AVCs) and the Equitable Life Assurance Society (ELAS)
(Exemption paragraph 3)

27. LGPS Regulations - Admission of New Employers to the Fund
(Exemption paragraph 3)

28. 2019 Actuarial Valuation - Initial Results
(Exemption paragraph 3)

29. Draft Funding Strategy Statement
(Exemption paragraph 3)

30. LGPS Central Limited
(Exemption paragraph 3)

Chairman

Minutes of the Pensions Panel Meeting held on 20 September 2019

Attendance	
Philip Atkins, OBE (Chairman)	Mike Sutherland
Colin Greatorex	Stephen Sweeney

Also in attendance: Ian Jenkinson (Observer), Paul Potter (Hymans Robertson) and David Thomas (Independent Adviser)

Apologies: Carolan Dobson (Independent Adviser)

PART ONE

14. Minutes of meeting held on 14 June 2019

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 14 June 2019 be confirmed and signed by the Chairman.

15. Pension Fund Performance and Portfolio of Investments as at 30 June 2019

The Director of Corporate Services submitted a summary of the performance of the Staffordshire Pension Fund, together with a portfolio of the Fund's investments, as at 30 June 2019.

The Panel were informed that the Fund had a market value of over £5.3 billion as at 30 June 2019. Over the quarter the Fund returned 3.5%, which was lower than the Fund's strategic asset allocation benchmark return of 4.0%. The best performing asset class relative to its benchmark was Corporate Bonds whilst UK Equities were the main detractors from performance, underperforming the benchmark by 1.0%.

Despite negative performance against its strategic benchmark over the quarter and 1-year period, the Fund had still outperformed its strategic benchmark over the 3, 5 and10-year periods. Annualised returns over all these periods were more than 9% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

RESOLVED – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 30 June 2019 be noted.

16. Dates of Future Meetings

RESOLVED – That the dates of Future meetings of the Panel, as set out below, be noted:

- 3 December 2019
- 3 March 2020
- 12 June 2020

(Note: All meetings are scheduled to start at 9.30am at County Buildings, Stafford).

17. Exclusion of the Public

RESOLVED - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part One of Schedule 12A of the Local Government Act 1972 (as amended) indicated below.

PART TWO

The Panel then proceeded to consider reports on the following issues:

18. Exempt Minutes of the Meeting held on 14 June 2019
(Exemption paragraph 3)

19. Pension Fund Performance and Manager Monitoring for the quarter ended 30 June 2019
(Exemption paragraph 3)

a) Portfolio Evaluation report for the quarter ended 30 June 2019
b) LGPS Central Global Equity Active Multi Manager Fund report June 2019

20. Strategic Benchmarking Review and Monitoring
(Exemption paragraph 3)

a) Economic and Market Update
b) Review of Position as at 31 July 2019

21. Responsible Investment (RI) Report Quarter 2 2019
(Exemption Paragraph 3)

22. Manager Presentation - Aberdeen Standard Investments (UK Equities)
(Exemption paragraph 3)

23. Manager Presentation - HPS (Highbridge) Investment Partners (Private Debt)
(Exemption paragraph 3)

Chairman

Minutes of the Pensions Panel Meeting held on 3 December 2019

Attendance	
Philip Atkins, OBE (Chairman)	Colin Greatorex
Derek Davis, OBE	Mike Sutherland

Also in attendance: Gordon Alcott (Observer), Paul Potter (Hymans Robertson) and David Thomas (Independent Adviser).

Apologies: Stephen Sweeney and Carolan Dobson (Independent Adviser).

PART ONE

24. Minutes of meeting held on 20 September 2019

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 20 September 2019 be confirmed and signed by the Chairman.

25. Pension Fund Performance and Portfolio of Investments as at 30 September 2019

The Director of Corporate Services submitted a summary of the performance of the Staffordshire Pension Fund, together with a portfolio of the Fund's investments, as at 30 September 2019.

The Panel were informed that the Fund had a market value of over £5.3 billion as at 30 September 2019. Over the quarter the Fund returned 3.2%, which was higher than the Fund's Strategic Asset Allocation benchmark return of 2.7%. The best performing asset classes relative to their benchmark were Private Debt and Private Equity, whilst Hedge Funds were the main detractors from performance, underperforming their benchmark by 1.4%.

The Fund had outperformed its strategic benchmark over the 1, 3, 5 and 10- year periods. Annualised returns over all these periods were more than 9% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

RESOLVED – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 30 September 2019 be noted.

26. Responsible Investment (RI) Report Quarter 3 2019

The Director of Corporate Services submitted a summary of activity during the quarter ended 30 September 2019 by the Fund's investment managers in fulfilment of their corporate governance and socially responsible investment obligations, including details of their voting activity on corporate resolutions for companies held in their portfolios.

The Director also submitted the quarterly report of the Local Authority Pension Fund Forum (LAPFF) and the Quarterly Stewardship Report issued by LGPS Central Limited.

The Panel were informed that the Financial Reporting Council recently launched its updated UK Stewardship Code. The Code, which was to take effect from 1 January 2020, aimed to improve stewardship practices and sets a substantially higher standard than before. Existing signatories to the Code would be required to submit a Stewardship Report that met the FRC's new reporting expectations by 31 March 2021, to continue to be listed as signatories to the UK Stewardship Code. Further information would be brought to the Panel next year on the work the Fund does to meet the criteria of the enhanced UK Stewardship Code.

The Panel noted that Fund's current Investment Beliefs make limited reference to RI, however, after a focussed workshop and training event for Pensions Committee and Pensions Board Members, which also involved representatives from LGPS Central Ltd and an external investment manager; Members had agreed to update the Fund's Investment Beliefs to include the following RI Beliefs. These new RI Beliefs would be included alongside the Fund's wider Investment Beliefs, in an updated ISS which would be presented to Members for approval at the March 2020 Pensions Committee.

- *Responsible investment can enhance long-term investment performance across all asset classes and should be integrated into all investment processes.*

- *A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment. The opportunity to influence through stewardship is waived with a divestment approach.*

- *Financial markets could be materially affected by climate change. Responsible investors should proactively manage this risk through stewardship activities in partnership with like-minded investors where feasible.*

- *Asset managers and investee companies with robust governance structures will be better positioned to handle future events. Decision making and performance are improved when there are diverse individuals involved.*

RESOLVED – That the content of the Responsible Investment (RI) report, including the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2 to the report) and LGPS Central Limited (LGPSC) Quarterly Stewardship Report (Appendix 3 to the report), be noted.

Setting Objectives for Best Practice Investment Governance

Note by Clerk: With the agreement of the Chairman of the Panel, this item was added to the agenda as an urgent item of business owing to the Competition and Market Authority's (CMA's) requirement for pension scheme trustees to meet the requirement to set objectives for their investment consultants by 10 December 2019.

The Panel received a briefing paper, which had been prepared by Hymans Robertson, setting out the CMA's requirements and proposing potential objectives for the Panel to consider setting Hyman's in their capacity as investment consultants to the Fund.

RESOLVED – (a) That the briefing paper from Hymans Robertson be agreed.

(b) That the potential objectives set out in the briefing paper be supported.

(c) That delegated authority be given to the Director of Corporate Services to finalise the objectives to be set for Hymans Robertson, the Fund's investment consultants, by 10 December 2019 in accordance with the Competition and Market Authority's requirements.

(d) That the finalised objectives set for Hymans Robertson, as the Fund's investment consultants, together with the detail of how those objectives will be measured be reported to the Panel at their next meeting.

27. Dates of Future Meetings

RESOLVED – That the dates of Future meetings of the Panel, as set out below, be noted:

- 3 March 2020
- 12 June 2020
- 14 September 2020

(Note: All meetings are scheduled to start at 9.30am at County Buildings, Stafford.)

28. Exclusion of the Public

RESOLVED - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part One of Schedule 12A of the Local Government Act 1972 (as amended) indicated below.

PART TWO

The Panel then proceeded to consider reports on the following issues:

29. Exempt Minutes of the Meeting held on 20 September 2019
(Exemption paragraph 3)

30. Pension Fund performance and manager monitoring for the quarter ended 30 September 2019
(Exemption paragraph 3)

a) Portfolio Evaluation report for the quarter ended 30 September 2019
b) LGPS Central Global Equity Active Multi Manager Fund report 30 September 2019

31. Strategic Benchmark Review and Monitoring
(Exemption paragraph 3)

a) Economic and Market Update

b) Strategic Asset Allocation Review
c) Private Equity Review – Proposal for Phase V (2020 – 2023)
d) Review of Position as at 31 October 2019

32. Property - Confirmation of the action of the Director of Corporate Services
(Exemption paragraph 3)

33. Manager presentation - LGPS Central (Global Equities)
(Exemption paragraph 3)

Chairman

PENSIONS COMMITTEE – 7 FEBRUARY 2020

Report of the Director of Corporate Services

STRATEGIC ASSET ALLOCATION (SAA) REVIEW 2019

Recommendation of the Chair

1. That the Pensions Committee agrees with the recommendation of the Pensions Panel, at its meeting of 3 December 2019 and approves Hymans Robertson LLP's proposed 'direction of travel' for the Staffordshire Pension Fund, in relation to its Strategic Asset Allocation (SAA) over the next 2-3 years, in moving from the Fund's Current Benchmark to its Long Term Benchmark; and

2. That the Pensions Committee notes that further detailed discussions may need to take place in relation to a number of the proposed changes.

Background

3. At its meeting on 3 December 2019, the Pensions Panel received a report from Hymans Robertson LLP (Hymans) outlining the activity that had taken place in reviewing the Staffordshire Pension Fund's SAA.

4. In order to assess the appropriateness of the high-level strategy, i.e. the balance between return seeking assets (e.g. equities) and defensive assets (e.g. bonds), Hymans carried out Asset Liability Modelling (ALM). This was done in conjunction with the Hyman's Actuarial team, ahead of the 2019 Actuarial Valuation of the Fund. The aim was to ensure that varying investment strategies and the assumptions made about investment returns in each of those strategies could be factored into the Valuation assumptions; which in turn would be used in setting future levels of Employer contributions. The review was carried out with additional input from Advisors and Officers of the Fund.

High-level Strategy

5. The results of the ALM were presented to the Pensions Panel at its meeting in June 2019. They concluded that the current investment strategy provides a good chance of meeting the Fund's long-term funding objectives based on the current levels of contributions being paid. And whilst there may be some scope for modest reductions in the Fund's investment risk in the future, this was not being advocated at the current time.

Detailed Asset Allocation

6. Having established that the high-level strategy remained appropriate, the next stage of the review was to consider the detail of the asset allocation and the various mandates in operation. It was considered important to do this with

regard to the objectives of asset pooling and the likely investments that will be offered by LGPS Central Limited.

Summary of Conclusions

7. Hyman's paper is attached in full at Appendix 2. The recommendations therein can be summarised in the following table as the likely 'direction of travel' for the Fund over the next 2-3 years, as it moves from its Current Benchmark towards its Long Term Benchmark. Further discussions may need to take place in relation to the detail around several of the proposed changes.

Asset Class	Mandate	Current Manager	Current Benchmark (%)	Long Term Benchmark (%)
UK Equities	Active	Aberdeen Standard	6.25	5.0
UK Equities	Passive	Legal & General	6.25	5.0
Global Equities	Active	Longview, JP Morgan LGPS Central Ltd	23.0	25.0
Global Equities	Passive	Legal & General	24.0	20.5
Global Equities (Factor Based)	Passive	TBC	5.0	5.0
Private Equity	Active	Various	3.5	3.5
Total Equities			**68.0**	**64.0**
Property		Colliers	10.0	10.0
Private Debt		Various	5.0	5.0
Infrastructure		TBC	1.0	5.0
Hedge Funds		Goldman Sachs	2.0	-
Total Other Return-Seeking Assets			**18.0**	**20.0**
UK Corporate Bonds	Active	LGPS Central Ltd	6.5	5.0
UK Index Linked	Passive	Legal & General	6.5	5.0
UK Gilts			-	5.0
Cash			1.0	1.0
Total Defensive Assets			**14.0**	**16.0**
			100.0	**100.0**

John Tradewell
Director of Corporate Services

Contact: Melanie Stokes, Head of Treasury & Pensions
Telephone No: (01785) 276330

Equalities Implications: There are no direct equalities implications.

Legal Implications: There are no direct legal implications.

Resources and Value for Money Implications: There are no measurable resources and value for money implications at this point in time, but it is acknowledged that any change in investment strategy will have a cost and may also impact on investment performance.

Risk Implications: A variety of risks are inherent in all types of investments and these will be managed in accordance with the Fund's Investment Strategy Statement.

Climate Change Implications: There are no direct climate change implications arising from this report, but the Fund is conscious of being a Responsible Investor and acknowledges such in its Investment Principles.

Health Impact Assessment screening – There are no health impact assessment implications arising from this report.

Staffordshire Pension Fund

Investment Strategy Review

December 2019

Paul Potter, Partner
Anna Hawkins, investment Consultant
For and on behalf of Hymans Robertson LLP

Contents

1 Executive Summary

In conjunction with the recent actuarial valuation, it is appropriate for the Panel to be reviewing the Fund's high-level investment strategy and asset allocation.

High level strategy

In order to assess the appropriateness of the high-level strategy, we carried out asset liability modelling in conjunction with the actuarial team earlier this year. Our modelling scenarios focused on varying investment strategies under different assumptions on future levels of contributions.

The results of this modelling were presented to the Pensions Panel in June.

The conclusions were as follows: -

- The current investment strategy provides a good chance of meeting the long-term funding objective based on the current level of contributions being paid.
- Maintaining the current contribution strategy would allow a modest reduction in growth assets.
- However, on the basis that a lower level of contributions is preferred in the medium / long term, the current high-level investment strategy should be maintained for now.
- A material improvement in the funding position could offer some scope for modest reductions in risk in future.
- We are not recommending any reduction in investment risk by switches from Return - seeking assets into Defensive low risk bonds.
- However, the Panel should continue to consider the scope for diversification of the return-seeking assets – including any new opportunities that might arise from pooling.

A number of discussions and decisions have been taken in relation to the asset allocation over the last twelve months. The aim in this paper is to bring those all together and also to **propose a 'direction of travel' for the Fund over the next 2-3 years.**

Return Seeking assets

In line with the conclusions on the high-level strategy, we have recommended continuing to diversify the Fund's return seeking assets.

In our summary, the target allocation to equities falls by 4% though we anticipate further possible reductions in future. We support a more than proportionate reduction from the UK given the material allocation currently. We support the continuing use of both active and passive management for UK and global equities – with the addition of some factor-based investment (FBI) where alternative market indices are chosen by the Fund with returns then being delivered by an index-tracking mandate.

In time, the balance between active, passive and factor-based investment may evolve, and this may also depend on the emergence and/or success of vehicles offered by LGPS Central.

We believe the Fund should target a meaningful allocation to infrastructure, albeit there remains some uncertainty as to how that can best be implemented. We also advocate the termination of the hedge funds mandate as the other income-based investments become established.

Defensive assets

As the allocations to other return-seeking assets will take some time to establish, we will retain the current position in bonds.

A summary of our conclusions is shown in the table below

Asset Class	Mandate	Current Manager	Current Benchmark (%)	Long Term Benchmark (%)
UK Equities	Active	Aberdeen Standard	6.25	5.0
UK Equities	Passive	Legal & General	6.25	5.0
Global Equities	Active	Longview, JP Morgan, LGPS Central	23.0	25.0*
Global Equities	Passive	Legal & General	24.0	20.5*
Global Equities (Factor Based)	Passive	TBC	5.0	5.0*
Private Equity	Active	Various	3.5	3.5
Total Equities			**68.0**	**64.0**
Property		Colliers	10.0	10.0
Private Debt		Various	5.0	5.0
Infrastructure		TBC	1.0	5.0
Hedge Funds		Goldman Sachs	2.0	-
Total Other Return-Seeking Assets			**18.0**	**20.0**
UK Corporate Bonds	Active	LGPS Central	6.5	5.0
UK Index Linked	Passive	Legal & General	6.5	5.0
UK Gilts			-	5.0
Cash			1.0	1.0
Total Defensive			**14.0**	**16.0**
			100.0	**100.0**

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

2 Introduction

Addressee

This report is addressed to the Pensions Panel ('the Panel') and officers of the Staffordshire Pension Fund ('the Fund'). The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Where this is permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Approach to reviewing the investment strategy

In conjunction with the recent actuarial valuation, it is appropriate for the Panel to be reviewing the Fund's high level investment strategy and asset allocation.

We regard the 'high level' investment strategy as the overall allocation between 'return-seeking' assets and 'defensive' assets. The former are designed to produce attractive returns over the long term to help keep contributions affordable for employers and to achieve and maintain a well-funded position. They involve a moderate or high level of investment risk. 'Defensive' assets, largely government or investment grade corporate bonds, are held in order to manage the overall level of risk within the Fund's strategy. The appropriate split between these types of assets is driven by the desired level of long term returns and the degree of investment risk deemed acceptable.

Once that broad split has been decided, each component can be broken down into a detailed asset allocation and range of mandates. At this second stage the decisions relate, for example, to the appropriate allocations to UK or overseas equities, to property, private debt or other alternative assets, between the use of active and passive management and also between government and corporate bonds.

It is also important that consideration of the Fund's asset allocation and investment mandates acknowledges the ongoing development of the sub-fund range being considered by the LGPS Central pool

High level strategy

In order to assess the appropriateness of the high-level strategy, we carried out asset liability modelling in conjunction with the actuarial team earlier this year. Our modelling scenarios focused on varying investment strategies under different assumptions on future levels of contributions.

The results of this modelling were presented to the Pensions Panel in June. The results are summarised in section 3 of this report.

Detailed asset allocation

Over the course of this year, we have also been reviewing the detail of the Fund's asset allocation and mandates in light of the results of our analysis on the high-level strategy.

Under the new pooling regime, the selection of individual investment managers will become a pool decision once the LGPS Central sub-funds have been established and Fund assets transferred in. Therefore, our focus in this review is on asset classes and mandates, as opposed to reviewing the individual investment managers which the Fund or Pool currently employs.

The specific recommendations are set out in Sections 4 to 6 of the report

3 High level investment strategy

Background

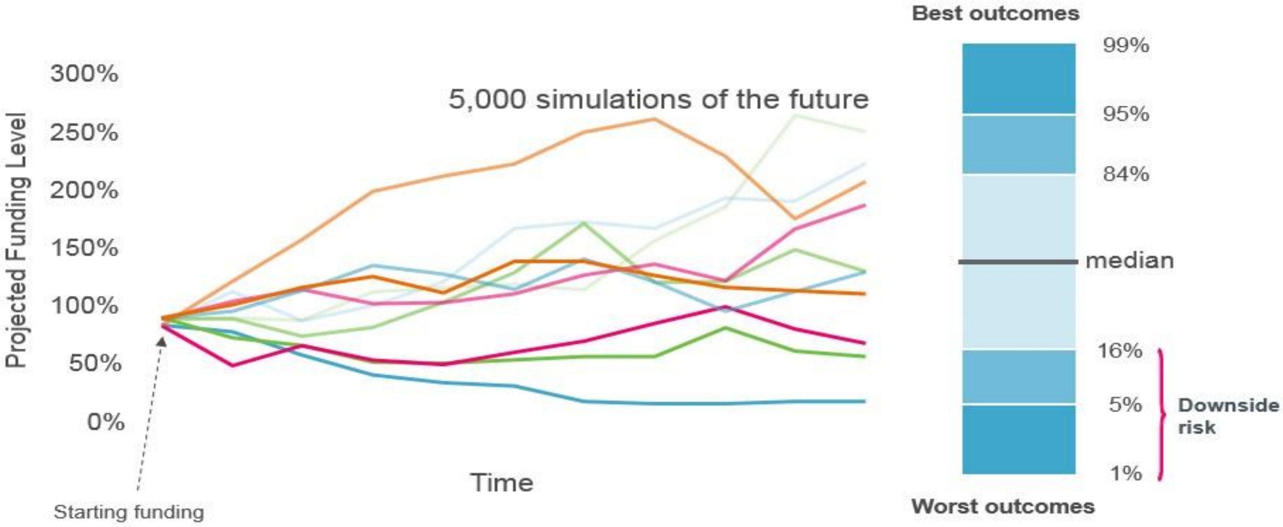
The strategic analysis discussed in this section aims to test the current investment and funding plan. Our analysis is supported by asset liability modelling. We have modelled results for 20 years into the future and looked at a range of investment and contribution strategies.

We have considered the current investment strategy, as well as asset allocations with respectively 15% and 25% less in return-seeking assets. We also considered three alternative fixed contribution strategies, one based broadly on the level of contributions currently being paid into the Fund and two lower fixed levels. These lower fixed contributions are not an option currently but allow us to assess the implications of targeting lower contribution levels in the future.

Full details of the reliances and limitations of our modelling were set out in our presentation, 'Review of high level investment strategy (June 2019)' along with a full set of assumptions. However, in summary, the modelling involved:

- Generating 5,000 "economic scenarios" showing various combinations of asset class returns, inflation rates, yield curves and salary increases
- Projecting forward the Fund's position in each of the 5000 scenarios in order to compare what might happen to the funding level depending on the choice of investment strategy.

Assets and liabilities are projected forward under the simulations and ranked in order as shown in the diagram below. This allows us to look at the distribution of outcomes and extract meaningful metrics in addition to simply looking at the median outcome.



Summary of analysis

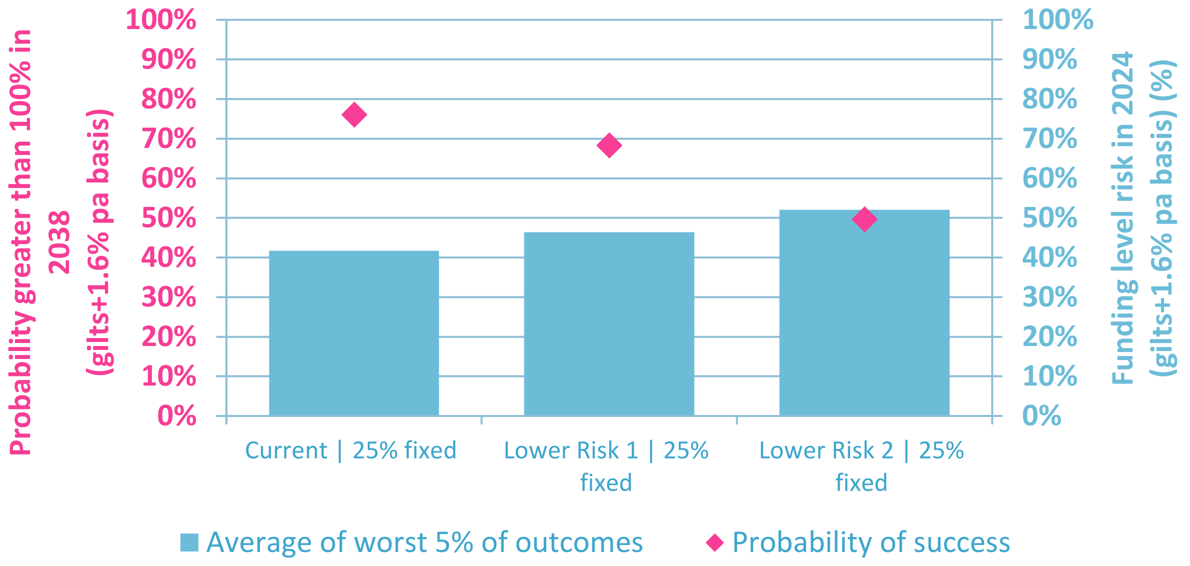
For each of the scenarios we considered, we assessed the chances that the objective (of being fully funded at the end of the projection period) would be met – shown as a pink diamond and read from the left-hand scale. We also considered a measure of downside risk – the funding level at the next valuation in the event of a 'poor outcome', defined as the average of the worst 5% of outcomes – shown by a blue bar and read from the right-hand scale.

Summary of analysis

For each of the scenarios we considered, we assessed the chances that the objective (of being fully funded at the end of the projection period) would be met – shown as a pink diamond and read from the left-hand scale. We also considered a measure of downside risk – the funding level at the next valuation in the event of a 'poor outcome', defined as the average of the worst 5% of outcomes – shown by a blue bar and read from the right-hand scale.

We initially considered what scope there was for the Fund to change the level of investment risk whilst maintaining the current level of contributions (circa 25% at an aggregate Fund level) throughout the projection period.

Decreasing the level of investment risk whilst maintaining current contributions (25%)

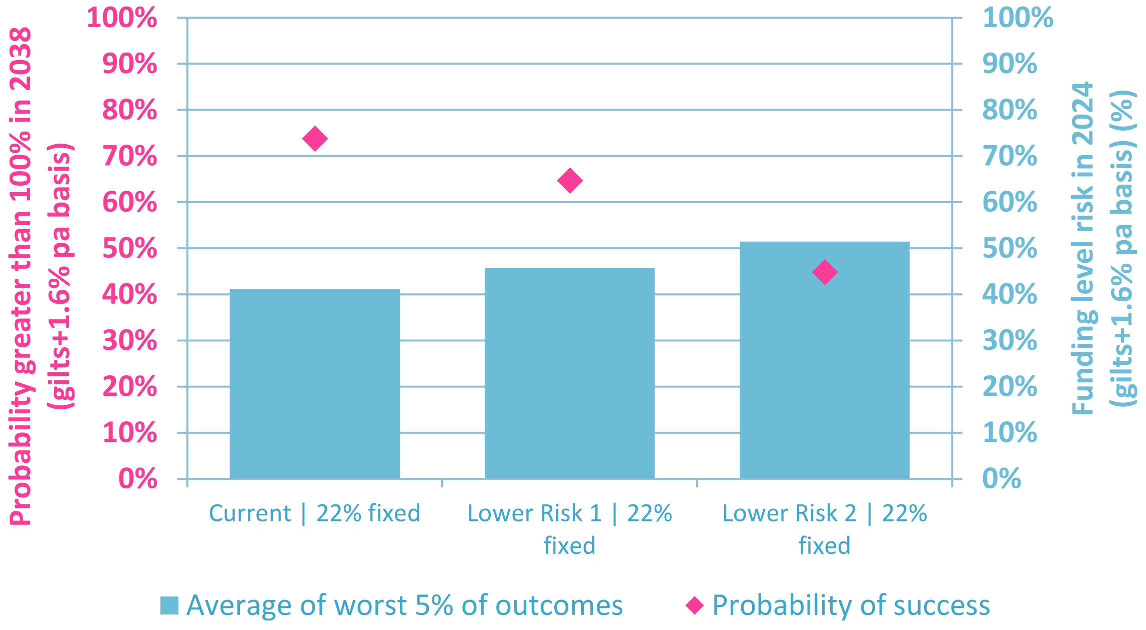


By moving to lower risk strategies, the chance of being fully funded in 20 years falls, but with a better funding position at the 2024 valuation date under the worst 5% of outcomes.

The chart suggests that a modest reduction in risk might be considered, but this assumes that contributions remain fixed at current levels, whereas we understand there is a desire from employers to target lower contributions than are being paid at present in response to an improvement in the funding position.

We therefore also tested the implications of lower risk investment strategies in conjunction with lower target level of future contributions (22% and 18%). With a lower target level of contributions, the reductions in chances of success are more material and suggest that no reduction in investment risk should be considered at the current time.

Decreasing the level of invest risk with fixed contributions of 22%



Conclusions

- The current investment strategy provides a good chance of meeting the long-term funding objective based on the current level of contributions being paid.
- Maintaining the current contribution strategy would allow a modest reduction in growth assets.
- However, on the basis that a lower level of contributions is preferred in the medium / long term, the current high-level investment strategy should be maintained for now.
- A material improvement in the funding position could offer some scope for modest reductions in risk in future.
- We are not recommending any reduction in investment risk by switches from Return - seeking assets into Defensive low risk bonds.
- However, the Panel should continue to consider the scope for diversification of the return-seeking assets – including any new opportunities that might arise from pooling.

4 Framework for setting asset allocation

We regard the Fund's investments as being divided into three main components, each with a different objective.

Return seeking assets – Equity

The objective of the equity component is to provide attractive returns over the long term to help fund the benefits and keep employer contributions at an affordable level. It is acknowledged that returns will be delivered in a volatile and unpredictable pattern, and that short and medium term returns may be poor.

Historically, equities have been a reliable source of excess return over bonds when assessed over the long term. It is possible to construct a well-diversified global portfolio at very low cost in terms of manager fees and governance time. The nature of the investment is easily understood by all stakeholders in the Fund from members to employers, and the ownership aspect also gives the Fund some influence over the way businesses are managed.

For these reasons, we believe that local authority funds will continue to have a material allocation to equity investments even as funds mature and funding positions improve.

Return seeking assets – other asset classes

The objective of the other return seeking assets is to provide attractive returns over the long term, with those returns being delivered either (1) in a pattern likely to be materially different than that from equities and/or (2) in a relatively stable pattern over time.

The more stable pattern of returns might be due to the return being largely dependent on a regular and reasonably predictable level of income. The returns may be broadly equivalent to those from equities or somewhat lower, but still in excess of those expected from low risk bonds.

The volatile pattern in which equity returns are delivered can become a particular problem when a pension fund becomes increasingly cash negative as assets may need to be sold at low points in the market.

Many asset classes in this category are still likely to have some degree of correlation with equity returns – and therefore they are unlikely to fully protect the Fund in the event of a pronounced crisis of investor sentiment.

Defensive assets

The objective of the Defensive assets is to provide a return broadly similar to the movement in value placed on the Fund's liabilities and/or a degree of liquidity to the Fund in times of market crisis. The returns from this component are not expected to help towards keeping contributions affordable in the future.

The size of allocation to this category essentially serves to control the level of investment risk being taken by the Fund. However, the extremely low level of yields available on low risk bonds assets in the current environment has made allocating to this category quite unattractive.

5 Return seeking assets – equity

In line with the conclusions on the high-level strategy in section 3, we have recommended continuing to diversify the Fund's return seeking assets.

Equities are expected to remain a reliable source of return for the Fund over the long term. However, as the Fund membership continues to mature and as the funding level has now reached a more comfortable position than it has been for some time, there is benefit in increased investment in assets which deliver a more stable pattern of returns albeit still in excess of those available from low risk bonds. Modest reductions in equity investment should continue to be considered to the extent that other attractive asset classes can be identified and accessed in a cost-effective way.

In our summary, the target allocation to equities falls by 4% though we anticipate further possible reductions in future.

The Fund's equity assets are currently invested as follows.

Asset Class	Mandate	Managers	Current Allocation (%)	Current Benchmark (%)
UK Equities	Active	Aberdeen Standard	6.0	6.25
UK Equities	Passive	Legal & General	7.0	6.25
Global Equities	Active	Longview, JP Morgan, LGPS Central	24.8	23.0
Global Equities	Passive	Legal & General	28.0	24.0
Global Equities (Factor Based)	Passive	TBC	-	5.0
Private equity	Active	Various	3.5	3.5
Total			**69.2**	**68.0**

As at 30 September 2019

Equity Allocations – UK and overseas

The overall split between UK and overseas equities (excluding private equity and allowing for the UK's inclusion within global indices) is currently in the region of 25% / 75%.

The UK stock market makes up only about 5% of global stock market capitalisation but UK pension funds have historically held a much larger weight to reflect factors such as the reduced currency risk and degree of influence they have on market regulations as a domestic investor. The allocation to the UK stock market does not reflect a pure exposure to the UK economy – most of the largest companies listed in the UK (such as HSBC, Royal Dutch Shell, GlaxoSmithkline, Unilever, etc.) are global businesses which have only limited operations in the UK. However, the large UK allocation can lead to the Fund having quite large investments in those global companies which have chosen to have their shares listed here.

The overall split between UK and overseas equities (excluding private equity and allowing for the UK's inclusion within global indices) is currently in the region of 25% / 75%.

The UK stock market makes up only about 5% of global stock market capitalisation but UK pension funds have historically held a much larger weight to reflect factors such as the reduced currency risk and degree of influence they have on market regulation as a domestic investor. The allocation to the UK stock market does not reflect a pure exposure to the UK economy – most of the largest companies listed in the UK (such as HSBC, Royal Dutch Shell, GlaxoSmithkline, Unilever, etc.) are global businesses which have only limited operations in the UK. However, the large UK allocation can lead to the Fund having quite large investments in those global companies which have chosen to have their shares listed here.

Use of active and passive management

A combination of active and passive management is also employed for the Fund's global equities. A third leg to the Fund's approach – namely tracking a dedicated index chosen specifically by the Fund to have certain (factor-based) characteristics - is discussed in the section below.

The long-term track record of active equity managers – in terms of persistency of outperformance - has been mixed at best. Although 'average manager' performance is never likely to appear impressive over the longer term, the key is to be able to identify in advance an above-average manager. Where that is possible, the potential added value for the Fund can be very significant.

The responsibility for selecting managers is passing to the LGPS Central team as part of the pooling agenda. In principle, a dedicated investment team focused solely on manager selection and monitoring should have an improved chance of picking the right managers when compared to individual funds. The pool also offers manager diversification within a single fund.

The newness of the team and strategy at Central has led to the Fund retaining some active equities with two existing managers, Longview and JP Morgan. Longview has an excellent long-term performance record for the Fund and the new fee deal with JP Morgan offers strong value for money. The Fund will have the choice of allocating further assets to the Central fund in future if confidence in the strategy increases or alternatively opting for a passive alternative. Having half of the Fund's global equities managed on an active basis would imply an eventual allocation of circa 20%-25% of Fund assets invested in the Central fund spread across three managers. Although this is not uncomfortable in terms of underlying manager exposure (circa 7%-8% of Fund assets each), it does represent a very high exposure to a single Central team and strategy. For that reason, we may need to re-assess our thoughts on the balance between active and passive management at that point.

An additional active management option would be for a sustainable equity mandate, though consideration of this would need to flow through from the wider discussions on ESG issues that the Panel are starting to have.

Factor Based investment – through index tracking

As discussed previously, we support exposure to this type of low-cost factor-based investing.

Factor investing breaks the link between index weighting and share price with the aim of providing incremental return and a measure of diversification from market cap weighted indices for similar levels of risk. Fees are only slightly higher than those charged for tracking traditional market cap weighted indices.

The break between index weighting and share price means periodic rebalancing to fundamental weights is required. Although this increases transaction costs, it is also a source of relative return as the rebalancing will typically involve selling stocks that have outperformed and purchasing stocks that have underperformed. This is a more methodical method for attributing stocks than a typical market cap approach, where stock holdings are driven by market sentiment. There is evidence that exposure to alternative 'factors' has provided better risk-adjusted returns than broad cap-weighted indices over the long term.

Discussion on the appropriate index to be used by the Fund continues. We favour multi factor indices on the basis that timing the optimum exposure to different factors is very difficult in practice. In terms of implementation, this may be through management by LGPS Central or by an external manager.

We have proposed an initial allocation of only 5%. This reflects the fact that this is a new approach to investment for the Fund and many of the strategies have a limited 'real life' track record. In time, we would regard this approach as having the potential to account for a higher proportion of the Fund's equities. As an aside, the current JP Morgan mandate is actively managed but uses a process with many similarities to factor-based index construction.

Private Equity

Although it represents a higher risk / return investment than the Fund's listed equities, we continue to believe that the asset class can deliver returns comfortably ahead of those from listed equities over the long term and contribute meaningfully to the Fund's overall returns.

It is important that there is no hiatus in committing to new programmes until LGPS Central have established a fully credible vehicle. The intention should be to hold the current funds to maturity. We have prepared a separate paper on the Fund's private equity programme.

Summary

Overall, we have proposed a reduction in quoted equities of 4% with 2.5% coming from the UK. We anticipate factor-based investing becoming more prominent in time, perhaps at the expense of active management though this may depend on the evolution of the Central pool and guidance on pooling from the Government.

Asset Class	Mandate	Managers	Current Benchmark (%)	Long Term Benchmark (%)
UK Equities	Active	Aberdeen Standard	6.25	5.0
UK Equities	Passive	Legal & General	6.25	5.0
Global Equities	Active	Longview, JP Morgan, LGPS Central	23.0	25.0*
Global Equities	Passive	Legal & General	24.0	20.5
Global Equities (Factor Based)	Passive	TBC	5	5.0*
Private Equity	Active	Various	3.5	3.5
Total			**68.0**	**64.0**

* Long term balance may depend on evolution of pooling agenda

6 Return seeking assets – other asset classes

We believe there are attractions in increasing allocations to asset classes which can provide more stable returns over time. In many cases, this could be where a relatively predictable income stream represents a large component of total return.

One of the constraints in this area however is the limited liquidity associated with many of the investments. This makes it difficult to make immediate injections of new cash in many areas. Allocations will tend to increase over a phased period.

The Fund's other return-seeking assets have the following target allocations:

Asset Class	Managers	Current Allocation (%)	Current Benchmark (%)
Property	Colliers	8.2	10.0
Private Debt	Various	4.3	5.0
Infrastructure	TBC	-	1.0
Hedge Funds	Goldman Sachs	1.7	2.0
Total		**14.2**	**18.0**

As at 30 September 2019

In principle, one of the benefits of asset pooling within the LGPS is that it should allow partner funds to have a greater diversification of investments without introducing additional complexity at an individual Fund level. Monitoring of the underlying managers and investments will be carried out centrally and governance requirements will be minimised. Funds will be able to hold a larger number of smaller allocations in specific asset classes whilst still benefiting from economies of scale on fees through aggregation.

Property

We regard UK property as being an excellent diversifying asset for the Fund. As returns are delivered largely in the form of rental income over time, the investment should tend to have a much more stable pattern of returns than the Fund's equity investments and the underlying property assets also provide some longer-term protection against inflation.

The nature of the Fund's current mandate means that the manager can in principle consider investing in any of the 'alternative' property sectors beginning to emerge, such as residential property. However, it is important to bear in mind that the current definition of the mandate (benchmark + outperformance target + guidelines) could inhibit investment in some sectors which might still be attractive to the Fund (i.e. a lower risk / lower return investment, for example).

The asset class looks quite expensive currently by historical standards, so we are not uncomfortable with the mandate being underweight at present. It is an asset class which in future could potentially increase in terms of allocation though we do not see any need to review the benchmark allocation at this particular time.

We would regard overseas property as a separate asset class with a separate (and higher) target return. Accessing overseas market returns is hampered by the significant costs associated with investing in overseas property markets so we have a preference for higher risk/return opportunistic investing in non-UK markets. If

LGPS Central were to launch a fund in this area, we would be open-minded and look at the parameters but certainly for now, we don't see any need for an allocation to the asset class.

Our strong preference is for there to be separate UK and overseas property offerings from pools. The nature of the Fund's current direct mandate should mean that it will be unaffected by pooling.

Private debt

The Fund has established a meaningful allocation to private debt over the last 2-3 years.

We believe the current trend for pension funds to provide more direct finance to businesses at the expense of banks will continue and that the rewards will be earned by those pension funds which are prepared to withstand a degree of illiquidity. At a time when yields on traded bonds have fallen to very low levels, there is still a material premium to be earned (of 1% - 2% p.a.) for less liquid forms of debt, reflecting the fact that the majority of investors cannot commit capital to these markets and are restricted to investing in more liquid bonds.

The credit quality tends to be reasonably strong and the loans generate a strong income stream from the outset. Potential returns in the region of 5% p.a. appear attractive against our current expectations from equities which are in the region of 6% p.a. Therefore, the Fund is not giving up much in terms of expected returns by switching assets from equities into private debt, where returns should be delivered in the form of a high and regular income stream.

As private debt funds are closed ended, there is no requirement to implement any pooling of the current investments. These holdings will be retained by the Fund until they reach the end of their fixed lives and all investment proceeds have been repaid to the Fund. Ultimately, LGPS Central are likely to offer some form of private debt vehicle but we understand that this is not currently a priority for them. Also, given the range of risk and return parameters available across this form of investment (ranging from senior secured to distressed debt) we would need to be comfortable that any new vehicle was targeting our preferred part of the market. Our strong preference currently is for a focus on senior secured loans with only a limited allocation to any higher risk loans.

The current target allocation of 5% is close to being achieved. We will likely be comfortable in increasing this target further in future though a greater priority in the short term would be to diversify the exposure to 'income' assets by establishing investments in infrastructure as discussed in the next section.

Infrastructure

We believe that infrastructure is in principle an attractive investment for the Fund given the long-term inflation linked liabilities and the ability to tie up capital for a period of years.

Infrastructure within the various geographies comes in a wide variety of forms, which can be classified into the following five sectors:

- **Social Infrastructure** e.g. Education facilities, Healthcare facilities, Prisons, Courts, District Heating, Public Buildings;
- **Transport Infrastructure** e.g. Toll Roads, Bridges, Tunnels, Airports, Sea Ports, Ferries, Car Parking, Rail and Mass Transport systems;
- **Communications Infrastructure** e.g. Cable Networks, Broadcast and Communication Towers, Satellite Systems;
- **Energy Infrastructure** e.g. Oil and Gas Pipelines, Power Generation, Gas Storage, Transmission and Distribution networks, Regulated Electricity assets;
- **Environmental Infrastructure**, e.g. Waste Treatment and Distribution, Waste and Recycling, Desalination Plants, Renewables.

One of the other advantages of investing in infrastructure lies with the diversification benefits that it offers. In particular, the financial characteristics of these types of assets differ from those of investments in quoted equities and bonds. The most important difference, and one of the most attractive features for pension scheme investors, is the relative lack of sensitivity of projects to changes in financial conditions (i.e. equity market rises and falls, etc.). The value of infrastructure investments is not directly affected by economic and geo-political events, at least in the near to medium term, resulting in added diversification benefits.

In our previous discussions, we intended initiating investment in infrastructure once a suitable vehicle was available through pooling. However, it is taking some time for LGPS Central to put together a credible infrastructure offer. At this point, it seems there is a real risk that either we could be waiting for quite a long time or alternatively a final product is agreed which we are not comfortable in endorsing.

Most infrastructure funds are closed ended, so (as with private debt and private equity) there would be no requirement to implement any pooling of existing investments once a satisfactory pooled solution becomes available. Any holdings at that point would be retained by the Fund until they reach the end of their fixed lives and all investment proceeds have been repaid to the Fund. For that reason, the Fund could begin establishing its infrastructure allocation now directly with managers and then move at a later date to pooling commitments if and when officers and advisers are satisfied with the Central offering.

The drawback with beginning a programme outside of the pool now is that time and effort (and cost) is expended to establish investments with managers which will then stay outside of the pool as ‘legacy’ assets for perhaps the next 10-15 years. However, investment in this relatively illiquid asset class takes time to establish and arguably the build-up of infrastructure investment has already been delayed by the onset of pooling. This also helps send a message to the pool that the Fund is not a ‘captive’ investor.

LGPS Central will be bringing forward new proposals on how they anticipate a pooled solution working.

Hedge Funds

We do have some reservations about investment in hedge funds. Hedge funds tend to lack transparency of the underlying assets and returns, and it is difficult to determine how much of the performance can be attributed to genuine manager skill as against merely benefiting from the underlying market movements or positioning.

The asset class incurs high management fees – at the underlying manager level and fund-of-funds level – and we are sceptical therefore of the value that can be added over time net of all fees relative to the level of risk that is being taken.

We acknowledge that the current Goldman Sachs mandate is designed to have a low correlation with equity markets and therefore is expected to provide some resilience to returns in time of market weakness, though the allocation of 2% of Fund assets means this is not material at a total Fund level.

We believe that the other asset classes discussed in this section can provide stable returns from more solid underlying investments, and in which we have more confidence that the returns will be delivered.

We do not anticipate hedge funds featuring in a dedicated fund within the LGPS Central range. The pool currently have a preference for a Target Return fund comprising a wider range of investment types. Current indications are quite vague on what investments might be expected to feature in this new fund so at this point allowing significant discretion over allocation across different types of investment to the Central team.

We recommend the termination of the current hedge fund allocation with the proceeds from selling the current allocation being used as a source of funds for other strategic changes which we discuss in this paper.

Higher yielding credit

One other common source of income driven return is investment in higher yielding forms of credit. The range of investments whereby investors are rewarded for taking on credit risk rather than equity risk is very broad and the traditional government and investment grade corporate bond universes capture only the lowest risk components of the credit universe.

The other areas of the credit markets involve taking on a higher level of credit risk in return for a higher expected return. (Private debt is one example, though investors there are also being rewarded for a degree of illiquidity in their investment). In principle, the attractions are that long term returns should be in excess of those expected from low risk bonds (defensive assets discussed below) thereby contributing to the overall portfolio return but without exposure to the potential volatility of equity investments.

The bonds tend to be quite short dated compared with conventional bonds (reflecting the higher credit risk) which means that their prices are affected less by changes in interest rates. The long-term return to investors is primarily from the higher yield minus the impact of any company defaults, rather than price movements. Returns can be volatile in the short term however as bond prices do fluctuate in line with general investor sentiment.

The universe would include instruments such as high yield bonds, traded loans, asset-backed securities, mortgage-backed securities, emerging market government and corporate bonds. The universe requires an active management approach in our view, but a number of specialist managers have established good records within these areas.

A common theme within our discussions on current asset valuations has been to highlight the relatively tight credit spreads available on these types of bond investments as investors have pursued a ‘hunt for yield’ in recent years. For that reason, we have been reluctant to recommend investment away from low risk bonds. However, LGPS Central are looking to launch a fund in this area and we have recommended that the officers have some input into the structuring of that as in our view this is a fund which could well offer an attractive investment in the future.

Summary

Increasing investment in this area is impacted by the time taken to establish allocations in illiquid investments and the availability of funds within LGPS Central. It should therefore be seen as a long-term direction of travel

Asset Class	Managers	Current Benchmark (%)	Long term Benchmark (%)
Property	Colliers	10.0	10.0
Private Debt	Various	5.0	5.0
Infrastructure	TBC	1.0	5.0
Hedge Funds	Goldman Sachs	2.0	-
Total		**18.0**	**20.0**

7 Defensive Assets

The Fund's low risk defensive assets are currently invested as follows:

Asset Class	Mandate	Managers	Current Allocation (%)	Current Target (%)
UK Corporate Bonds	Buy and Maintain	Insight	7.7	6.5
UK Index Linked	Passive	Legal & General	8.1	6.5
Cash	-	-	1.0	1.0
Total			**16.8**	**14.0**

As at 30 September 2019

The high-level modelling suggests there is little attraction in increasing the allocation to defensive assets at this time. Low risk bonds offer very poor prospective returns for long term investors given current yields. Their role in the strategy is to provide a degree of protection against further falls in bond yields putting pressure on the funding position (although the process used for setting contributions is not determined directly by short term yield levels.)

Investment Grade Corporate Bonds

Given the low level of current yields, we have a preference for holding high quality investment grade corporate bonds in preference to fixed interest gilts. From a risk management perspective, gilts do represent the lowest risk investments for the Fund and have the advantage of providing protection to returns in times of market stress and liquidity in times of market disruption. However, these risk reduction benefits need to be weighed against the impact on long term expected returns for the Fund and on balance we would still have a preference for a well-diversified exposure to high quality corporate bonds, with additional yield over government bonds of around 1.5% p.a. at present.

In the event that gilt yields return to more palatable levels in future, the relative attraction for the asset class within the strategic benchmark can be reviewed, though we do not expect this in the short to medium term. We would be wary of trying to tactically move between the asset classes in the short term depending on credit spreads.

We have a preference for corporate bonds to be subject to some form of active credit selection rather than being managed passively against a market index (which means that an investor will be most heavily invested in those companies which have issued the largest quantities of debt). We also believe that a lot of managers do have strong credentials in carrying out credit analysis of individual companies and industry sectors.

The new actively managed LGPS Central corporate bond fund includes an exposure to global corporate bonds. Although we would have a preference for a sterling corporate bond mandate, the new fund does hedge any foreign currency risk and also restricts itself to high quality issues. Trends in developed economy yields have followed a similar pattern in recent times so the fund still offers some protection against a lower yield environment.

Index Linked Gilts

Index linked gilts provide some protection against short to medium term inflation shocks albeit long term prospective returns seem poor from current levels. There is no corresponding inflation linked corporate bond universe that can be held as a higher yielding proxy paying for an active manager to manage a pure index linked gilt portfolio and these assets can be managed at extremely low cost by a passive manager. Under pooling, the passive government bond mandate with Legal and General can continue to be held outside of the pool.

Cash

As the Fund continues to make commitments to illiquid asset classes and waits for those commitments to be drawn down, it will be necessary to run with a modest balance of cash in the Fund. For performance measurement purposes, a higher cash level can be a drag on performance and it is common for funds to include a small cash allocation in their formal benchmark to reflect this. For that reason, we continue to support a 1% cash allocation in the Fund's strategic benchmark.

Summary

The long-term benchmark included below effectively crystallises the current allocation of just over 16%, i.e. there is no requirement to sell down the holdings in the short term.

In addition, although we might assume equal allocations to fixed interest government and corporate bonds at some point in the future, we would not advocate moving to that position now.

Asset Class	Mandate	Managers	Current Benchmark (%)	Long Term Benchmark (%)
UK Corporate Bonds	Active	LGPS Central	6.5	5.0
UK Index Linked	Passive	Legal & General	6.5	5.0
UK Gilts	Passive	Legal & General	-	5.0
Cash	-	-	1.0	1.0
Total			**14.0**	**16.0**

8 Conclusions

In this report, we have included the conclusions of our modelling of the high-level investment strategy and brought together discussions relating to the detailed asset allocation which have been happening throughout 2019.

Our aim in this paper is to propose a 'direction of travel' for the Fund over the next 2-3 years. We acknowledge that further detailed discussions may need to take place in relation to a number of the proposed changes.

One of the further complexities with the review of strategy is that the Fund's assets will continue to be aggregated into a range of funds to be made available by the Central pool, unless the funds on offer fail to meet the Fund's requirements. We have taken into account the latest state of progress on pooling in this report.

We have drawn together the various proposals contained within our paper in the following table for discussion.

Asset Class	Mandate	Current Manager	Current Benchmark (%)	Long Term Benchmark (%)
UK Equities	Active	Aberdeen Standard	6.25	5.0
UK Equities	Passive	Legal & General	6.25	5.0
Global Equities	Active	Longview, JP Morgan, LGPS Central	23.0	25.0*
Global Equities	Passive	Legal & General	24.0	20.5*
Global Equities (Factor Based)	Passive	TBC	5.0	5.0*
Private Equity	Active	Various	3.5	3.5
Total Equities			**68.0**	**64.0**
Property		Colliers	10.0	10.0
Private Debt		Various	5.0	5.0
Infrastructure		TBC	1.0	5.0
Hedge Funds		Goldman Sachs	2.0	-
Total Other Return-Seeking Assets			**18.0**	**20.0**
UK Corporate Bonds	Active	LGPS Central	6.5	5.0
UK Index Linked	Passive	Legal & General	6.5	5.0
UK Gilts			-	5.0
Cash			1.0	1.0
Total Defensive			**14.0**	**16.0**
			100.0	**100.0**

We look forward to discussing these issues with the Pensions Panel in December.

PENSIONS COMMITTEE – 7 FEBRUARY 2020

Report of the Director of Corporate Services

TRAINING NEEDS ANALYSIS & TRAINING POLICY 2020/21

Recommendation of the Chair

1. That the Pensions Committee:

   (i) note the results of the 2019 Training Needs Analysis (TNA) at Appendix 2 in relation to the CIPFA Knowledge and Skills Framework (CIPFA KSF) and note the 2020/21 Training Plan in paragraph 11; and

   (ii) approve the Staffordshire Pension Fund's Training Policy attached at Appendix 3.

Background

2. Section 248A of the Pensions Act 2004, as amended by the Public Services Pensions Act 2013, requires that trustees of occupational pension schemes should be trained and have knowledge and understanding of the law relating to pensions, the role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits.

3. At their meeting on 8 December 2017, the Pensions Committee reaffirmed their commitment to the CIPFA Knowledge and Skills Framework (CIPFA KSF) and the adoption of a high-level Training Plan covering the 8 key knowledge areas of the CIPFA KSF. For reference, these are listed below:

   - Pensions Legislation
   - Pensions Governance
   - Pensions Administration
   - Pensions Accounting and Auditing Standards
   - Pensions Services, procurement and relationship management
   - Investment performance and risk management
   - Financial markets and products knowledge
   - Actuarial methods, standards and practices

4. The CIPFA KSF is mandatory for Local Pensions Board Members, and whilst it is currently only a recommendation for Committee Members and Senior Officers, such as the S151, following the Good Governance Project commissioned by the Scheme Advisory Board (SAB) and undertaken by Hymans Robertson, it is anticipated that something similar to the CIPFA KSF will become mandatory for all.

   https://www.hymans.co.uk/insights/research-and-publications/publication/good-governance-in-the-lgps-report/

5. Committee Members agreeing to complete a Training Needs Analysis (TNA), which assesses their perceived knowledge against the 8 key areas of the CIPFA

KSF, is considered best practice and already embraces and demonstrates the spirit of Good Governance.

2018/19 and 2019/20 Training Plans

6. Training for Pensions Committee Members in 2018/19 and 2019/20 consisted of a number of elements. Some of these were directly in response to the results of the previous TNA, e.g. **Performance Measurement** and **Cost Benchmarking,** whilst some were dictated by the areas of focus for the Fund in the short to medium term, e.g. **Strategic Asset Allocation Review** and the **2019 Actuarial Valuation**. In many instances, training was undertaken as part of routine Committee meetings and delivered by the Actuary. Pensions Committee Members also attended a workshop where they considered **Responsible Investment** and as a result agreed a new set of Investment Principles for the Fund. Some new Members of the Committee also attended **Pensions Fundamentals** training.

2019 Training Needs Analysis (TNA)

7. All Pensions Committee Members and Local Pensions Board Members were asked to complete a new TNA during December 2019. As one would expect, there are differences in individual Members' knowledge but based on the responses received then, as a collective, the Committee (c57% response rate) has improved on its 2018/19 scores overall. The Pensions Board (c83% response rate) is marginally down on its 2018/19 scores, however, with several new Members very recently appointed, this is not a surprise.

8. The collective summary results of the TNA for the Committee and for the Local Pension Board are provided in Appendix 2. It is pleasing to see an improvement across all of the 8 areas of knowledge generally, but particularly so in relation to 'Investment Performance and Risk Management' (6) and 'Actuarial Methods, Standards and Practices' (8) given these have been the two main areas of focus throughout 2018 and 2019.

9. This information will be used to inform the delivery of general and specific, more targeted, training going forwards and will be reviewed again in 2021.

2020/21Training Plan

10. As with all training plans, some flexibility in terms of times and methods of delivery will be required. Where appropriate, training will be incorporated into scheduled Committee and Board meetings in June, September, December and March and two dedicated training sessions for both Committee and Board members will be held in July and November. Joint training opportunities within the LGPS Central pool, and outside of scheduled training, may also be offered from time to time.

11. Having considered the detailed results from the 2019 TNA, training proposed for 2020/21 is likely to include the following:

- June / July - Portfolio Evaluation Limited and CEM Benchmarking – refresher training at Committee on **Performance Measurement** and **Cost Benchmarking;**

- July / November – **Investing in Infrastructure** – as this is a new asset class in the Fund's Strategic Asset Allocation, Members will benefit from a greater understanding;
- July / November – **Private Debt** – the Fund has been an investor in this asset class for around 2 years now – have our expectations been met and what might we expect going forwards?;
- September / December / March – **Pensions Legislation and Administration** – what does it say, what does it involve and what are the current issues?; and
- October – December 2020 – Local Government Association offer 3-day **Pensions Fundamentals** training, which is routinely offered to all new Committee and Board members.

12. Committee and Board Members, who have not already done so or who would like a refresher, may also wish to have a look at the Pension Regulators toolkit. This is an online training programme covering many of the key areas of the CIPFA KSF (with the main exception being investments). This can be accessed by following the link below: https://trusteetoolkit.thepensionsregulator.gov.uk/

Training Policy

13. As with all areas of Pensions, it is best practice and further demonstrates good governance to set out the Pension Fund's attitude towards the Training of all individuals charged with the oversight of the Fund, by having a policy on such. The Staffordshire Pension Fund's Training Policy is attached at Appendix 3 for approval.

John Tradewell
Director of Corporate Services

Contact	Melanie Stokes, Head of Treasury & Pensions
Telephone No.	(01785) 276330

Background Documents:
CIPFA Knowledge and Skills Framework
Scheme Advisory Board Good Governance Report
The Pensions Regulator Trustee Toolkit

Equalities Implications: There are no direct equalities implications arising from this report.

Legal Implications: There are no direct legal implications arising from this report.

Resources and Value for Money Implications: All Training Costs will be paid for by the Staffordshire Pension Fund

Risk Implications: There is a risk of inappropriate decisions being made if Pensions Committee members do not have an appropriate level of knowledge and understanding.

Climate Change Implications: There are no major climate change implications arising from this report.

Health Impact Assessment screening – There are no health impact assessment implications arising from this report.

Appendix 2

Staffordshire Pensions Committee and Staffordshire Local Pensions Board Results of 2019 Training Needs Analysis

On a scale from1 to 5 where:
1 = No knowledge
2 = Limited knowledge and understanding
3 = Basic understanding
4 = Broad ability to comprehend and apply knowledge
5 = Sound understanding and ability to ask challenging questions

Area of Knowledge **Average score out of 5**

		Pensions Committee 2019	Local Pensions Board 2019
1. Pensions Legislation			
1.1	A general understanding of the pension's legislative framework in the UK.	3.71	3.2
1.2	An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.	3.71	3.2
1.3	An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	3.86	2.4
1.4	A regularly updated appreciation of the latest changes to the scheme rules.	3.86	2.6
		3.79	2.85
2. Pension Governance			
2.1	Knowledge of the role of the administering authority in relation to the LGPS.	3.71	3.4
2.2	An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.	3.57	3.2
2.3	Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.	3.71	3.0
2.4	Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.	4.14	3.2
2.5	Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.	3.71	3.8
2.6	Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.	3.0	2.8
2.7	A detailed knowledge of the duties and responsibilities of pension board members.	3.86	3.8
2.8	Knowledge of the stakeholders of the pension fund and the nature of their interests.	4.0	3.6
2.9	Knowledge of consultation, communication and involvement options relevant to the stakeholders.	3.57	3.4
2.10	Knowledge of how pension fund management risk is monitored and managed.	4.0	3.4
2.11	Understanding of how conflicts of interest are identified and managed.	3.57	3.6

2.12	Understanding of how breaches in law are reported.	3.57	3.6
		3.7	3.4
3. Pensions Administration			
3.1	An understanding of best practice in pension's administration, eg performance and cost measures.	3.57	3.2
3.2	An understanding of the required and adopted scheme policies and procedures relating to: • Member data maintenance and record-keeping processes • Internal dispute resolution • Contributions collection • Scheme communications and materials	3.29	3.0
3.3	Knowledge of how discretionary powers operate.	3.0	2.8
3.4	Knowledge of the pension's administration strategy and delivery (including, where applicable, the use of third-party suppliers, their selection, performance management and assurance processes).	3.86	2.6
3.5	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.	3.29	2.0
3.6	An understanding of what additional voluntary contribution arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.	3.43	3.0
		3.41	2.77
4. Pensions accounting and auditing standards			
4.1	Understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.	3.57	3.2
4.2	Understanding of the role of both internal and external audit in the governance and assurance process.	3.86	4.0
4.3	An understanding of the role played by third party assurance providers.	3.43	3.25
		3.62	3.48
5. Pensions services procurement and relationship management			
5.1	Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.	3.57	3.8
5.2	A general understanding of the main public procurement requirements of UK and EU legislation.	3.29	3.8
5.3	Understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.	4.0	3.6
5.4	An understanding of how the pension fund monitors and manages the performance of their outsourced providers.	4.0	3.6
		3.72	3.7
6. Investment performance and risk management			
6.1	Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.	3.86	4.0
6.2	Awareness of the Myners principles of performance management and the approach adopted by the administering authority.	3.0	2.8

6.3	Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	3.29	2.8
		3.38	3.2

7. Financial markets and products knowledge			
7.1	Understanding of the risk and return characteristics of the main asset classes (equities, bonds, property).	3.86	3.6
7.2	Understanding of the role of these asset classes in long-term pension fund investing.	3.86	3.4
7.3	Understanding of the primary importance of the fund's statement of investment principles and the investment strategy decision.	3.86	3.8
7.4	A broad understanding of the workings of the financial markets and of the investment vehicles available to the pensions fund and the nature of the associated risk.	3.57	3.4
7.5	An understanding of the limits placed by regulation on the investment activities of local government pension funds.	3.43	2.6
7.6	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.	3.0	2.4
		3.6	3.2

8. Actuarial methods, standards and practices			
8.1	A general understanding of the role of the fund actuary.	3.71	3.8
8.2	Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.	3.29	3.6
8.3	Awareness of the importance of monitoring early and ill health retirement strain costs.	3.71	3.8
8.4	A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.	3.71	3.6
8.5	A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.	3.57	3.4
8.6	A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.	3.43	3.2
		3.57	3.57

Average Combined Score by segment (Low to High 2019)

	2018	2019	Difference
3. Pensions Administration	2.74	3.09	0.35
6. Investment performance and risk management	2.70	3.29	0.59
1. Pensions Legislation	2.82	3.32	0.50
7. Financial markets and products knowledge	2.96	3.40	0.44
4. Pensions accounting and auditing standards	2.88	3.45	0.57
2. Pension Governance	3.04	3.55	0.51
8. Actuarial methods, standards and practices	2.98	3.57	0.59
5. Pensions services procurement and relationship management	2.90	3.71	0.81

Appendix 3

Staffordshire Pension Fund

Training Policy

1 April 2020

Introduction

This policy provides details of the training strategy for the Staffordshire Pension Fund.

It sets out the arrangements for the training and development of:

- Members of the Staffordshire Pensions Committee (including co-opted members);
- Members of the Staffordshire Pensions Panel;
- The Local Pensions Board; and
- Senior Officers involved in the day to day management of the Staffordshire Pension Fund (‘the Fund”).

Legislation

Section 248A of the Pensions Act 2004, as amended by the Public Services Pensions Act 2013, requires that trustees of occupational pension Schemes should be trained and have knowledge and understanding of the law relating to pensions, the role of trustees, the principles of scheme funding and investment and the management and administration of pension scheme benefits.

Whilst there is a legal requirement for a prescribed level of knowledge and understanding for members of a Local Pension Board, this legal requirement does not apply to members of a Pensions Committee and Pensions Panel; albeit there is a clear need for them to have knowledge and understanding to enable them to make informed and consistent decisions.

Accordingly, the Pensions Committee have agreed to adopt the Chartered Institute of Public Finance and Accountancy’s Knowledge and Skills Framework (CIPFA KSF).

Aims and objectives

Staffordshire County Council recognises its responsibilities as the Administering Authority to the Staffordshire Pension Fund on behalf of its stakeholders which include:

- Over 120,000 current and former Employee members of the Fund;
- Almost 500 Employers in the Fund; and
- Local taxpayers.

The Administering Authority's objectives in relation to this policy are to ensure that:

- Those persons charged with the financial management and decision-making about the Fund are fully equipped with the knowledge and skills required to discharge the duties and responsibilities allocated to them;
- Those persons responsible for the day-to-day administration and running of the Fund have the appropriate level of knowledge and skills required to discharge their duties and responsibilities;
- Those persons responsible for providing governance and assurance of the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, to ensure their decisions are robust and soundly based; and
- Members of the Local Pensions Board have sufficient knowledge and understanding to challenge any failure by the Administering Authority to comply with the Regulations and other legislation relating to the governance and administration of the LGPS and/or any failure to meet the standards and expectations set out the Regulators Codes of Practice.

All Members and Officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

To achieve these objectives, the Fund will have regard to the following publications:

- CIPFA Technical Knowledge and Skills Framework for Local Pension Boards;
- CIPFA Knowledge and Skills Framework;
- Public Service Pensions Act 2013
- The Pensions Regulator's (TPR) Codes of Practice for Public Service Schemes.
- Local Government Pension Scheme (LGPS) Pension Board Guidance

Staffordshire County Council fully supports the use of the CIPFA Knowledge and Skills Frameworks, and the Pension Regulators Codes of Practice. These documents will form the basis of the training strategy using a rolling training plan together with regular monitoring and reporting.

John Tradewell, the Director of Corporate Services (Scheme Administrator) at Staffordshire County Council is the Fund's designated named individual responsible for ensuring that this Training Policy is implemented. However, the practical arrangements for organising and ensuring the delivery of timely and appropriate training has been delegated to the Head of Treasury and Pensions.

The Council's approach to training will be supportive in nature with the intention of providing Committee, Panel and Local Pension Board members with regular sessions that will contribute to their level of skills and knowledge.

Areas of knowledge and understanding required

The core technical requirements for those working in public sector finance are:

Pensions Legislation
To have a working knowledge of the Local Government Pension Scheme regulatory and legislative frameworks and discretionary policies.

Public Sector Pensions Governance
To understand elements of the governance structure, including the role of the Local Pension Board.

Pensions Administration
To understand the requirements of the scheme's interactions with members in this complex area and assist the Scheme Manager to ensure compliance with the regulations.

Pensions Accounting and Auditing Standards
To understand the way pension funds are accounted for and the audit and reporting requirements.

Pensions Services Procurement and Relationship Management
To gain an understanding of the procurement rules for the public sector and the different delivery models available for pension fund investment and administration services.

Investment Performance and Risk Management
To gain an understanding of investment risks and performance.

Financial Markets and Product Knowledge
To understand how the Fund manages its investment portfolio, to ensure that this is done effectively.

Actuarial methods, Standards and Practices
To understand the work of the Actuary and the way in which actuarial information is produced.

Degree of knowledge and understanding required.

All Committee, Panel, Local Pension Board members and Officers must have a knowledge and understanding of the law relating to pensions (and any other matters prescribed in legislation) to a degree appropriate for them to be able to carry out their role, responsibilities and duties.

Acquiring, reviewing and updating knowledge and understanding

Committee, Panel and Local Pension Board members should invest sufficient time in their learning and development alongside their other responsibilities and duties.

Newly appointed Committee, Panel and Local Pension Board members should be aware that their legal responsibilities and duties as a member of those bodies begin from the date they take up their post. They should immediately start to familiarise themselves with the scheme regulations, documents recording policy about the administration of the scheme and relevant pensions law. *The Pension Regulator's Code of Practice No:14 Governance and Administration of Public Service Pension Schemes (2015)* clearly states these requirements.

Committee, Panel and Local Pension Board members should undertake personal responsibility to complete a Training Needs Analysis (TNA) and annually review their skills, competencies and knowledge to identify any gaps or weaknesses.

Training Plan

The Training Needs Analysis (TNA) will be the primary method of assessing the knowledge and skills of both the individual Member or Officer and more widely, the collective knowledge and skills of the Committee, Panel and Local Pensions Board and this will be used for an annual assessment. The TNA results will be used to help develop the training plan for the following year to ensure any knowledge gaps are removed as far as possible, given other areas of general training being provided.

Training will be delivered through a variety of methods including:

- In-house training provided by Officers or external trainers;
- Training as part of a formal meeting;
- External training events;
- Circulation of reading material;
- Shared training with other Funds or frameworks;
- Attendance at seminars and conferences;
- On-line training toolkit provided by the Pensions Regulator; and
- Self-improvement and familiarisation with regulations and documents.

Where appropriate, training will be provided jointly for the Committee, Panel and Local Pensions Board members and Officers.

A training schedule will be developed by Officers in consultation with the Committee, Panel and Local Pensions Board to achieve the following:

- maintain a general awareness to ensure member's have an ongoing understanding and knowledge of developments and current issues in the pensions' arena;
- training is delivered to ensure appropriately timed training is provided in relation to "hot topics"; and
- individual and collective training needs are assessed and delivered.

In order to identify whether the objectives of this Training Policy are being met, the Administering Authority will maintain a Training Log which records any training delivered, as well as the

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attendance of Committee, Panel and Local Pension Board members at training events and learning activities.

Key risks

The key risks to the delivery of this Policy are outlined below. Pensions Committee members, with the assistance of the Local Pensions Board and Officers, will monitor these and other key risks and consider how to respond to them:

- Changes to the Committee, Panel and/or Local Pensions Board membership and/or Officer's potentially diminishing knowledge and understanding.
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee and / or Panel and / or Local Pension Board members and/or other Officers resulting in a poor standard of decision making, administration and/or monitoring.
- Insufficient resources being available to deliver or arrange the required training.
- The quality of advice or training provided not being of an acceptable standard.

Reporting

A report will be presented to the Pensions Committee and the Local Pensions Board on an annual basis setting out:

- the training provided/attended in the previous year at an individual level;
- commentary on how this compares to the Training Plan; and
- any actions required, such as a review of the Training Plan.

This information will also be included in the Fund's Annual Report and Accounts. The Fund's Committee, Panel and Local Pensions Board members will be provided with details of forthcoming seminars, conferences and other relevant training events.

Costs

All training costs will be met directly by the Pension Fund.

Further Information

If you require further information about anything in or related to this Training Policy, please contact:

Melanie Stokes - Head of Treasury and Pensions,
Staffordshire County Council, 1 Staffordshire Place, Tipping Street, Stafford, ST16 2DH

Email: melanie.stokes@staffordshire.gov.uk
Telephone: (01785) 276330

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