

## **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<br>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                     |
| <b>Total Equities</b>                    |         |                                         | <b>68.0</b>           | <b>64.0</b>             |
| 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                   | -                       |
| <b>Total Other Return-Seeking Assets</b> |         |                                         | <b>18.0</b>           | <b>20.0</b>             |
| 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                     |
| <b>Total Defensive Assets</b>            |         |                                         | <b>14.0</b>           | <b>16.0</b>             |
|                                          |         |                                         | <b>100.0</b>          | <b>100.0</b>            |

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## Appendix 1

**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.