

**Report of: Corporate Director of Finance and Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	15 July 2014	<b>B5</b>	n/a

Delete as appropriate	Exempt	Non-exempt

**Appendix B attached** is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

## **SUBJECT: - Investment Strategy Asset Allocation Update- Liability Hedging**

### **1. Synopsis**

- 1.1 To progress on the Fund's investment strategy allocation in considering liability hedging approaches and consider the discussion papers prepared by AllenbridgeEPIC- Appendix A and Mercer's presentation slides Appendix B (private and confidential)

### **2. Recommendation**

- 2.1 To consider for information AllenbridgeEPIC's paper Appendix A on liability hedging
- 2.2 To consider Mercer's recommended changes to future investment strategy set out in Appendix B (private and confidential) and agree whether to proceed with :
- (i) Restructuring the current bond allocation from investment grade credit to multi asset credit and gilts

### **3. Background**

- 3.1 Members agreed at the November meeting to maintain the current split of 75% in growth assets and 25% in defensive assets. A further paper in March provided information on alternative asset types, expected returns and associated risk and it was agreed to reduce the Fund's equity allocation by 10% to invest in a diversified growth fund and to consider further the restructuring of the current bond investments. A further paper was requested to the next meeting to discuss credit and liability hedging approaches.
- 3.2 Appendix A is a briefing prepared by our independent investment advisors, AllenbridgeEPIC, explaining liability hedging and why it is important for a pension fund. It gives a basic introduction to the theory behind liability hedging and then looks at some of the practical ways in which a pension fund can introduce a liability hedging approach into an investment strategy. Members are asked to consider this to enhance their understanding and knowledge.
- 3.3 Appendix B(private and confidential) is a presentation prepared by Mercer(our investment consultant) to discuss the Fund's approach to liability hedging by considering market conditions of government bonds(gilts) and corporate bonds(credit), the strategic reasons to invest in assets matching liabilities and methods of matching.
- 3.4 Members are asked to consider and discuss all these factors and agree changes to the investment strategy in the light of Mercer's recommendations and to implement the consequent restructure and any associated cost.

A further progress report on implementation will be brought to the next committee meeting in September.

### **4. Implications**

- 4.1 **Financial implications**  
Fund management and administration fees are charged directly to the pension fund. The transfer of assets will generate some costs.
- 4.2 **Legal Implications**  
None applicable to this report.
- 4.3 **Environmental Implications**  
None applicable to this report.
- 4.4 **Equality Impact Assessment**  
None applicable to this report.

### **5. Conclusion and reasons for recommendation**

- 5.1 Members are asked to consider all the factors outlined in Appendix A and Appendix B( private and confidential) and agree changes to the current structure of the Fund.

**Background papers:**

None

Final report clearance:

**Signed by:**

**Received by:** Corporate Director of Finance and Resources      Date

Head of Democratic Services      Date

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