

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	26 March 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Investment Strategy Review 2021
REPORT NUMBER	PC/MAR21/REVIEW
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CHIEF OFFICER	Jonathan Belford
REPORT AUTHORS	Graham Buntain and Laura Colliss
TERMS OF REFERENCE	1.1

1. PURPOSE OF REPORT

- 1.1 This report details the outcome of the investment strategy review which has been prepared by officers following the outcome of the 2020 Actuarial Valuation. This report sets out the details of the Fund's current investment strategy and makes a number of recommendations on taking the strategy forward.

2. RECOMMENDATION

- 2.1 That the Committee approve the proposed investment strategy as set out in section 3.5 of the report.

3. BACKGROUND

- 3.1 The Fund's established practice is to complete a review of its investment strategy following the outcome of each triennial actuarial valuation.

The aim of the investment strategy is:

- To restore any Fund deficit position through investment returns and agreed contributions to achieve 100% funding but also consider what investment policy the Fund would have when fully funded.
- To provide a framework for identifying changes required over the coming period to continue and maintain the appropriate funding level.

3.2 Actuarial Valuation 2020 & Funding Strategy Statement

Valuation Date	31 March 2014 £'s	31 March 2017 £'s	31 March 2020 £'s
Asset Value	2,834	3,815	4,405
Liabilities	3,025	3,562	4,276

Surplus/(Deficit)	(191)	253	129
Funding Level	94%	107%	103%

Actuarial Valuation

3.2.1 As shown in the above table, the Fund has a strong funding level, outperforming the target funding level of 100%. Having reached this position it is now very important that the Fund implements a balanced investment strategy that locks in this funding level and protects this position going forward; whilst recognising the Fund is still an open Fund.

Funding Strategy Statement

3.2.2 The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) (the '2018 Regulations') and the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (the '2014 Transitional Regulations') (collectively 'the Regulations') provide the statutory framework from which the administering authority is required to prepare a Funding Strategy Statement (FSS).

3.2.3 Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the administering authority, acting on the professional advice provided by the scheme actuary.

3.2.4 The administering authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

3.2.5 The purpose of the Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to 'secure the solvency' of the Pension Fund and the 'long term cost efficiency'; and
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

3.2.6 The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the administering authority to implement and maintain.

- 3.2.7 Delivery of the Funding Strategy is through a combination of scheme contributions (both member and employer) and the Fund's investment Strategy.
- 3.2.8 This report sets out the Fund's current investment strategy and proposal for its development over the next valuation period.

3.3 **Investment Strategy**

- 3.3.1 Despite the time spent by Pension Funds on the appointment, review and selection of fund managers, investment strategy and the development of the strategic benchmark (Alpha) accounts for around 80 - 90% of the performance of a pension fund's assets.
- 3.3.2 Investment strategy should be determined in order to meet the Fund's particular requirements, with specific reference to the funding position and liability profile, and to the Fund objectives. It need not reflect a standard 'mould' or 'model'; rather it should be based on sound rationale specific to the Fund's own circumstances. In theory every fund should have a different asset allocation policy.
- 3.3.3 It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which more closely matches the liabilities and represents the minimum risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.
- 3.3.4 Investment of the Schemes' assets in line with the minimum risk portfolio would minimise fluctuations in the Schemes' ongoing funding level between successive actuarial valuations.
- 3.3.5 Departure from a minimum risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will stabilise the contribution requirements and move towards/maintain the funding target (100%). The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.
- 3.3.6 The current FSS incorporated the following global strategy asset allocation as appropriate to meet the long term objective of achieving/maintaining 100% funding:

Growth Assets 57.5% (range +/- 5%)

Global Equities 45%

Diversified Growth 7.5%

Limited Partnerships 5%

Income/Protection Assets 42.5% (range +/- 5%)

Bonds/Credit 15%

Direct Property 10%

Infrastructure 10%

Index Linked 5%

Other 2.5%

3.4 **2020 Investment Strategy Review**

3.4.1 During the above review a number of topics were considered including:

- a) Re-balancing the Equity profile and overweight
- b) The role of each mandate as a contribution towards Investment Strategy
- c) Private Equity maturity
- d) De-risking and adding Inflation protection
- e) Income requirements
- f) Environmental, Social & Governance issues

3.4.2 Changes made since the last review of the Fund include;

- a) Further investments in Direct Lending, Credit and Infrastructure

3.5 **Investment Strategy 2021**

3.5.1 Having taken all the above into consideration which importantly includes the current funding position of 103% the Fund should look to achieve its rebalancing target and lock in recent gains.

3.5.2 To achieve this, the Fund needs to reduce its growth asset allocation and increase its income/protection allocation. This can be done by reducing Global Equities and increasing Bonds/Credit and Infrastructure assets.

3.5.3 The proposed move between Growth and Income/Protection will be phased over time taking into account trigger points and market conditions. In the first instance Officers recommend the following change:

Current Strategic Benchmark	Proposed Strategic Benchmark
Growth Assets 57.5% (+/- 5%)	Growth Assets 55.0% (+/- 5%)
Global Equities 45%	Global Equities 50%
Diversified Growth Funds 7.5%	
Limited Partnerships 5%	Limited Partnerships 5%
Income/Protection Assets 42.5% (+/- 5%)	Income/Protection Assets 45.0% (+/- 5%)
Bonds/Credit 15%	Bonds/Credit 22.5%
Property 10%	Property 10%
Infrastructure 10%	Infrastructure 10%
Index Linked 5%	
Other 2.5%	Other 2.5%

4. FINANCIAL IMPLICATIONS

- 4.1 The performance of the Fund over the long term impacts on the Fund's 'funding level' and therefore the ability to meet its long term liabilities.

5. LEGAL IMPLICATIONS

- 5.1 As noted in Paragraph 3.2 the strategy is in line with the legal requirements stipulated in the Regulations. Failure to comply with Regulations would lead to action by the Pensions Regulator.

6. MANAGEMENT OF RISK

- 6.1 The Pension Fund regularly updates its Risk Register in line with change and is reported quarterly to the Pensions Committee. The risk set out in 5.1 is managed through the Risk Register. The Regulations require an administering authority to prepare, maintain and publish a Funding Strategy Statement.

7. OUTCOMES

- 7.1 The report does not impact on the Council's Delivery Plan.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

None

10. APPENDICES

None

11. REPORT AUTHOR CONTACT DETAILS

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