Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 September 2016**
Classification:	**General Release**
Title:	**Investment Strategy Options**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1 Executive Summary

1.1 This report introduces the paper prepared by Deloitte on market update and investment opportunities which they will be presenting at the meeting.

2 Recommendation

2.1 The Committee:

a. note the contents of this paper

b. approve that an investment strategy review be undertaken once the results of the 2016 actuarial valuation are known.

3 Overview

3.1 The attached paper from Deloitte (Appendix 1) discusses the fund's current asset allocation and the long term expected returns from the portfolio. The purpose of accumulating contributions and investing is to generate a sufficient return to pay the scheme liabilities as they fall due. Adjusting the exposure to real assets (tradionally equities and property) will change both the expected return and the volatility of returns. Higher equity allocations lead to greater expected returns and also greater volatility of outcomes.

3.2 The Quarterly actuarial update (reported under item 12 of this agenda) indicates a projected funding level of 79% as at June 2016. The report adds that the discount rate underlying the smoothed funding level as at 30 June 2016 is 5.6% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 6.7% p.a.

3.3 The Deloitte paper indicates that the current portfolio has an expected return of 6.4%. This suggests that approximately 70% of the deficit closure can be expected to be provided by investment returns in excess of the discount rate.

3.4 The above numbers will be updated by the outcome of the 2016 triennial valuation. When the deficit and the required investment return are known, it will be appropriate for the Committee to consider the extent that investment returns in excess of the discount rate can address the revised deficit.

3.5 The Deloitte paper mentions that in recent years modelling has been undertaken suggesting investment strategies that are less equity oriented. These will have offered greater certainty out outcomes but modestly lower expected returns. The recommendations arising from these reviews were never fully implemented and as a consequence the equity allocation as at June 2016 of 74% compares with suggested targets of 50%.

3.6 The current portfolio is concentrated with one assets class, which has performed well in recent years. Any sustained correction in equities will have a major impact on the funding level and the required employer contributions. It is proposed that once the revised actuarial position is known, that the investment consultant working with the actuary be asked to model various equity allocations and a wider range of asset classes indicating the likely returns, both median and spread of outcomes. Working with the Actuary this modelling will indicate the impact of different asset returns on the level of contributions from employers.

3.7 Reviewing the asset allocation on a regular basis is appropriate to address changes in the funding level, the returns that can be expected from each asset class and also employers ability to meet deficit contributions.

4 Recommendation

4.1 That a review of investment strategy is undertaken when the results of the 2016 actuarial valuation are known to illustrate potential portfolios with varying expected returns and range of outcomes (returns and contributions) to enable the Committee to determine whether the current strategic asset allocation is optimum.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Market Update and Investment Opportunities