

# LOCAL PENSION BOARD – 25 April 2025

## STRATEGIC ASSET ALLOCATION REVIEW

Report by Executive Director Resources & Section 151 Officer & Deputy Chief Executive

### 1. RECOMMENDATION

The Board is **RECOMMENDED** to note the report.

### 2. Introduction

Every three years the Pension Fund undertakes a fundamental review of its asset allocation to tie in with the triennial valuation of the Fund. The review has typically been undertaken by the Fund's Independent Investment Adviser and Fund officers.

The review determines the strategic asset classes that the Fund will invest in and then sets a target allocation and range for them. The range is managed operationally by Fund officers with regular meetings held to consider whether any rebalancing is required.

The strategic asset allocation is arguably the most important investment decision undertaken by the Fund with research showing it to be the primary driver of investment performance.

### 3. Current Strategic Asset Allocation

The last fundamental review of the strategic asset allocation was considered by the Pension Fund Committee at their meeting on 3<sup>rd</sup> March 2023. The table below shows the current strategic asset allocation agreed from the fundamental review, including any subsequent changes.

Asset Class	Target Allocation (%)	Range (%)
UK Equities	10	8 – 12
Global Equities	41	39 – 43
<b>Total Equities</b>	<b>51</b>	<b>47 – 55</b>
Index Linked Gilts	7	
Corporate Bonds	4	
Multi-Asset Credit	5	
<b>Total Fixed Interest</b>	<b>16</b>	<b>14 – 18</b>
Property	8	6 – 10
Private Equity	10	8 – 12
Secured Income	5	4 – 6
Infrastructure	5	4 – 6
Private Debt	5	4 – 6
Cash	0	0 – 5

<b>Total Other Assets</b>	<b>33</b>	<b>26 - 45</b>
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Within Global Equities the allocation is currently split as follows: 16% Paris Aligned Benchmark passive global equities, 16% Sustainable Equities, 9% Global High Alpha.

#### **4. Timescales**

The Fundamental review will take place over the second half of 2025 alongside the triennial valuation process. Draft whole fund results from the valuation are expected to be available by the end of September 2025. A report setting out the proposed strategic asset allocation and detailing the rationale for any changes will be taken to the Pension Fund Committee meeting on 6<sup>th</sup> March 2026.

Prior to the preparation of the formal report officers intend to run a session for the Pension Fund Committee and Local Pension Board members to get their views.

#### **5. Considerations in the 2025 Fundamental Review**

The 2025 review will take into account the draft results of the latest valuation undertaken by the Fund actuary. The valuation will determine the funding position of the Fund and assumed investment return for the Fund. The review will consider whether asset allocation is appropriate to deliver the returns expected by the actuary.

The Fund has agreed a Responsible Investment Policy and a series of metrics and targets. The review will consider how the Policy goals can be incorporated and reflected in the strategic asset allocation. For example, work is currently in progress with Brunel and other client funds to develop a natural capital portfolio.

The government's consultation, Local Government Pension Scheme (England and Wales): Fit for the future, included a number of investment related points. We are awaiting legislation and/or guidance on the outcome of the consultation and will need to consider this in the fundamental review. For example, there is expected to be a drive for increased local investment.

The review will consider the latest cashflow position of the Fund and forecast over the next few years. As the Fund approaches a cashflow negative position on contributions compared to pension payments it will need to consider the most efficient way meet those cashflow requirements. This may be through the use of investment income and so the asset allocation will need to ensure appropriate availability of income through the asset classes selected. It may also be necessary to redeem investments to meet cashflow requirements and so the Fund will need to consider this when allocating to illiquid asset classes.

#### **6. Active vs Passive Equities**

Within the Fund's current strategic allocation to equities there is a 70%/30% split between active and passive equities. The review will consider the appropriateness of this split taking into account what is best able to deliver

against the Fund's investment objectives. This will include consideration of investment management costs and the Fund's investment beliefs as set out in its Responsible Investment Policy.

At the 7<sup>th</sup> March 2025 Pension Fund Committee meeting the Independent Investment Adviser's report gave his views on the merits of active vs passive equities.

Lorna Baxter  
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April 2024