



PENSIONS COMMITTEE

11 DECEMBER 2023

REPORT TITLE:	REVISED INVESTMENT STRATEGY
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

The purpose of this report is to seek approval from Members for a revised investment strategy for Merseyside Pension Fund (MPF).

The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

RECOMMENDATION/S

That the Pensions Committee be recommended to consider and approve the investment strategy and strategic asset allocation.

That the Pensions Committee be recommended to consider and approve the actions and recommendations set out in appendix 1.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 Following a review of the Fund's investment beliefs, risk, return and income requirements, and consideration by the Investment Monitoring Working Party, a revised strategic asset allocation has been formulated.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The option not to revise the strategic asset allocation was considered but dismissed as LGPS Investment Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State and 7(7) kept under review and revised from time to time.

3.0 BACKGROUND INFORMATION

- 3.1 Last year, MPF relet its contract for strategic investment advice. The tender specified MPF's strategic investment objectives and extended to include support for a major programme of change. The change programme is intended to deliver the objectives previously approved by Committee in relation to investment strategy, climate risk, sustainability and responsible investment. Following a thorough and detailed procurement process, Redington's submission was successful.

- 3.2 Summary objectives are:

Strategic Objectives

The strategic adviser will be accountable to the Director of Pensions (as Head of MPF's management team) for providing the service in support of the Fund's strategic objectives. MPF will require the full range of services set out in Lot 1 of the Framework, inclusive but not limited to:

- i. Advice on investment strategy review & strategic asset allocation, in line with the triennial funding strategy cycle;
- ii. Liaison as appropriate with the Fund's actuarial advisors;
- iii. Advice & support on strategic progression to the quarterly Investment Monitoring Working Party meetings;
- iv. Advice and support on MTAA and risk management strategies, including quarterly review.

Change Programme 2022

Merseyside Pension Fund seeks an investment consultant to work with the Investment Team as Strategic Adviser; and through a partnership model, to support a major programme of change to the Fund's investment strategy to achieve the objectives of:

- i. Maintain full funding position, reduce risk and achieve target returns.
- ii. Implement changes to strategic benchmark, including portfolio restructuring & streamlining of governance.
- iii. Target and implement a Net Zero climate plan over short, medium and long term.

3.3 Members will be aware that Redington have undertaken surveys of stakeholders regarding investment beliefs in order to develop a Pension Risk Management Framework; a dashboard which captures the principal strategic objectives of the Fund's investment strategy and progress towards them. At this stage, the revised strategic asset allocation (SAA) is intended to assist MPF in maintaining a full funding position, reduce risk and achieve investment returns consistent with actuarial assumptions.

3.4 Approval of the revised SAA will enable officers and advisors to move ahead with the later phases of the change programme. Further details of the change programme and recommended actions are set out in the accompanying appendix. It is recognised that the new strategy will take time to implement particularly in view of the illiquid nature of private market assets. Consequently, it is recommended that relatively wide ranges are set within the ISS around the asset classes to enable the transition to be undertaken in a measured way. Officers will also need to take into account impending guidance from the Department for Levelling Up, Housing and Communities following the Next Steps consultation which, in particular, may affect allocations to private equity. The table below sets out the changes recommended by Redington.

3.5 Strategic asset allocation

Asset Class	Current Strategic Benchmark	Detail of current arrangements	Revised Strategic Benchmark	Recommended Control Range
Equities	43		34	29 - 49
UK equities		15.2		
Overseas equities	27.8			
US		4.3		
Europe		6.5		
Japan		3.2		
Asia Pacific		3.2		
Emerging markets		4.9		
Global		5.7		
Fixed income	17		25	14 - 29
UK gilts		4		
Index-linked gilts		9		
IG Corporate bonds		4		
Property	11		11	8 - 14
Alternatives	28		29	24 - 34

Private equity		6	4*	
Hedge funds / liquid alternatives		4	4	
Private credit		7	7	
Infrastructure		11	14**	
Cash	1		1	0 - 6
Total	100		100	

*ambition to include an allocation to impact

**ambition to include an allocation to Natural Capital solutions

4.0 FINANCIAL IMPLICATIONS

- 4.1 The revised investment strategy is forecast to provide MPF with improved risk adjusted returns.
- 4.2 The need to reallocate assets geographically and between asset classes will incur transition costs; these principally relate to explicit costs such as transaction fees, brokerage, taxes and exchange fees; and implicit costs such as spread, FX and market impact.
- 4.3 By retendering mandates and increasing assets under internal management, management fee savings are anticipated. Nonetheless, performance is generally a much more significant consideration relative to fees.

5.0 LEGAL IMPLICATIONS

- 5.1 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 Although the investment strategy review and change programme is being supported by the Fund's strategic investment advisors and its independent advisors, it is placing considerable demands on officer time and resources.

7.0 RELEVANT RISKS

- 7.1 The revised investment strategy is forecast to provide MPF with improved risk adjusted returns.
- 7.2 The continuing work on sustainability and climate risk is being undertaken with a view to informing and developing the Fund's Net Zero ambitions.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 Members attending recent IMWPs have been involved in surveys, training and discussions on investment strategy and responsible investment.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The implementation of the revised investment strategy will take into account the Fund's climate targets and sustainability agenda.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The revised investment strategy includes aspirations and ambitions in relation to investments in levelling up, local and impact opportunities.

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APPENDICES

Appendix 1 Investment Strategy recommendations.
Appendix 2 Investment Strategy report.

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section A of its Terms of Reference:

(a) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance of the Fund.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date