



## London Borough of Enfield

<b>Report Title</b>	Strategic Asset Allocation - Enfield Pension Fund
<b>Report to</b>	Pension, Policy & Investment Committee (PPIC)
<b>Date of Meeting</b>	17 January 2023
<b>Cabinet Member</b>	Cllr Tim Leaver
<b>Executive Director / Director</b>	Fay Hammond
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<b>Classification</b>	Part 1 Public & part 2 (Private & Confidential)
<b>Reason for exemption</b>	3 Information relating to the financial or business affairs of any particular person (including the authority holding that information).

*Note: No information contained within the report should be deemed investment advice and is for the use of the Enfield Pension Committee only.*

### Purpose of Report

1. To present options for the Strategic Asset Allocation for the Enfield Pension Fund ("Fund") and agree the recommended allocation.

### Recommendations

2. The Committee are asked to agree the recommended Strategic Asset Allocation and next steps for implementation.

<b>Asset class</b>	<b>Proposed allocation</b>
Equities	40
Bonds	24
Private Equity	8
Inflation Protection illiquids	7
UK Property	5
Infrastructure	16
Cash	0
<b>Total</b>	<b>100</b>

## Background.

3. The Local Government Pension Scheme (LGPS) is governed by the Public Service Pensions Act 2013. In managing an LGPS fund, the administering authority (Enfield Council) has both fiduciary duties and public law duties. Fiduciary duties are legal obligations that require the administering authority to act in the best interests of scheme members. The investment powers must be directed to achieving what is the best for the financial position of the fund.
4. The Fund has a paramount duty to seek the best possible return on its investment taking into account a properly considered level of risk. A well governed and well-managed pension fund will be rewarded by good investment performance in the long term.
5. Investment returns have a direct correlation to contribution rates from Employers in the Fund. Any additional investment returns will result in lower future pension contribution from Employers resulting in those employers (including Enfield Council) having additional funds to spend on front line services.
6. However, this must be considered in the overall context of risk and volatility.
7. Although the investment allocations for the Fund are continually kept under observation, the Fund's investment strategy is formally reviewed in line with the Actuarial valuation cycle (every 3 years- last completed in 2022).
8. In addition, during 2023, the Department for Levelling Up, Housing and Communities (DLUHC), following the 'Mansion House' proposals, consulted on a number of issues concerning Local Government Pension Schemes (LGPS) which covered asset pooling, levelling up and opportunities in private equity.
9. DLHUC announced in late 2023 that they intend to implement many of the proposals in the consultation. The impacts of this on strategic allocation are as follows:
  - require funds to consider investments to meet the government's ambition of a 10% allocation to private equity.
  - amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.

These proposals will need to be considered by the Fund in future Strategic Asset Allocations.

10. A dedicated session to review the Funds Strategic Asset Allocation was held in October 2023. The key focus of this session was the Strategic Asset Allocation to various assets classes. Strategic asset allocation is the most significant factor in determining investment returns over the long term.
11. The session was led by the Fund's investments advisors, Aon. The presentation is attached as Appendix 1 – LB Enfield Investment strategy slides (part 2 Private & Confidential)
12. The current actual allocation of the portfolio v the Strategic Asset Allocation is presented in the table below as at September 2023:

Asset Class	Current	Actual	Strategic	Difference
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	Allocation	Allocation	
	%	%	
Equities	40	35	+5
Bonds	30	29	+1
Private Equity	8	5	+3
Inflation Protection illiquids	7	10	-3
UK Property	5	5	0
Infrastructure	4	16	-12
Cash	6	0	+6
<b>Total</b>	<b>100</b>	<b>100</b>	

13. An explanation of each asset class is provided in the Aon presentation and as a summary in Appendix 2 – Asset class explanations.

### Preferred Option and Reasons For Preferred Option

14. Following the investment strategy session in October 23, Aon presented the following Portfolios for consideration:

Notes	Strategy allocation	Current allocation	Mansion House	Increase private markets	Increase equities and infrastructure
Description	Current strategic allocation	Current (30 Sep 23) actual allocation	Compared to the current strategic portfolio this option considers implications of Mansion House speech, by increasing allocations to private markets	Increasing private equity allocation	Increased equity and infrastructure allocation
Equities	35.0	40.1	37.0	35.0	38.0
Private Equity	5.0	7.6	10.0	10.0	7.0
Hedge Funds	-	0.2	-	-	-
UK Property	5.0	5.5	5.0	5.0	5.0
PFI and Infrastructure	16.0	4.0	20.0	16.0	18.0
Bonds	29.0	30.0	21.0	27.0	25.0
Inflation Protection Illiquids	10.0	6.8	7.0	7.0	7.0
Cash	-	5.9	-	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Expected return (% pa) Median <sup>1</sup>	7.2%	7.1%	7.5%	7.5%	7.4%
80 <sup>th</sup> percentile return (% pa) <sup>2</sup>	5.4%	5.2%	5.5%	5.5%	5.4%
Value at Risk (95% £m) <sup>3</sup>	£314m	£320m	£350m	£336m	£338m

15. Members were asked to consider the following options from the above table with regards to the strategic asset allocation:

- Remain at the Current Strategic Allocation
- Increase Private Equity Allocation
- Increased Equity and Infrastructure allocation

16. Options B and C were considered due to:

- Alignment with current actual allocations

- Closer alignment with the DLUHC proposal on Private Equity and Levelling up
- Market Conditions
- Risk/Reward ratio

All of these are considered in more depth in Appendix 1.

17. Following conversation between officers, members, the Funds investment advisors (Aon) and the Funds independent advisor the following strategic allocation has been proposed:

Asset class	Current Strategic Allocation	Current Actual Allocation	Proposed allocation *
Equities	35	40	40
Bonds	29	30	24
Private Equity	5	8	8
Inflation Protection illiquids	10	7	7
UK Property	5	5	5
Infrastructure	16	4	16
Cash	0	6	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

\*Although this proposed allocation is not specifically modelled in the Aon investment slides they indicated that they are in agreement with the proposed allocation and it is close enough to the modelled portfolios that it would not materially move the expected return, 80<sup>th</sup> percentile or value risk number's to warrant additional cost to be incurred by the Fund in modelling the proposed allocation.

18. **Recommendation:** agree proposed allocation

19. The rationale for this is

- Closer alignment with current actual allocations
- Closer alignment with DLUHC proposal on Private Equity and Levelling up proposals
- Risk/Reward – Increasing Private Equity and Equity allocations would be suitable for the Fund given the current funding position of the Fund (105%). This enables the fund to marginally increase the allocation to riskier assets. Historically, these 2 asset classes have been the Fund's best performing asset classes.

20. This allocation is expected to deliver investment returns of between 7.4% -7.6% p.a. It is also expected that 80% of the time it will return at least 5.4%. The discount rate of the fund (the investment return which the fund is expected to deliver to meet it's obligations) as at 30<sup>th</sup> September 2023 is 5.0%. Therefore the investment return with the proposed portfolio is in excess of this.

## Implementation plan

21. Use current cash balance to fund infrastructure commitments. These commitments wont be completely drawdown for another 2-4 years so it makes sense to utilise the cash balance to fund these.

22. The next steps would be review the managers within each asset class to ensure they meet the needs of the Fund.

23. Given the overweight position in Bonds (in the proposed portfolio v the current actual allocation) this would be the asset class to be reviewed by the committee first. In 2023 there were a number a short-term investments placed to utilise the cash balance and take advantage of the high interest rate environment impacting Bonds and Gilts. In addition, Aon have identified private debt (that would be categorised under bonds) as an investment that the Fund may wish to take advantage of given the attractive returns on offer.
24. Following on from the review of the bond portfolio the Committee should review the Inflation protection illiquids to ensure that they still meet the objectives of the Fund and if necessary determine a exit strategy given the long running nature of the investments.
25. The new Strategic Asset Allocation will be incorporated into the Investment Strategy Statement to be presented at the March 2024 PPIC meeting.
26. The Investment Strategy Statement will include a policy for the committee to review the Strategic Asset allocation on an annual basis to ensure that it is still achieving the objectives of the Fund and is able to respond to global macro-economic events.

## **Relevance to Council Plans and Strategies**

27. An economy that works for everyone

## **Financial Implications**

28. Investment returns have a direct correlation to contribution rates from Employers in the Fund. Any additional investment returns will result in lower future pension contribution from Employers resulting in those employers (including Enfield Council) having additional funds to spend on front line services

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## **Appendices**

- Appendix 1: Aon – Investment Strategy update – **Part 2 -Private & Confidential**  
Appendix 2 – Asset class explanations