

INVESTMENT STRATEGY UPDATE

HERTFORDSHIRE COUNTY COUNCIL PENSION FUND (THE 'FUND')

1. Introduction

Following the initial results of the 2016 actuarial valuation, a Working Group formed of members of the Pensions Committee has been established to review the Fund's current investment strategy and to determine whether any changes to the investment strategy should be considered by the Pensions Committee. This brief document serves as an update on the discussions that the working group has had to date.

2. Investment Strategy Review

The actuary's initial valuation results showed an improvement in the Fund's funding level from 82% in 2013 to 91% in 2016. Whilst there would have been an expectation of a marginal improvement of the Funding level as a result of deficit contributions, the actual improvement was greater than anticipated.

Given the improvement in the funding level it was agreed that the investment strategy review should investigate whether there was an opportunity to reduce the levels of investment risk the Fund is running currently, thus reducing any potential deterioration in the funding level which the Fund has worked hard to improve. The review should also ensure that the Fund has a high probability of achieving long term funding objectives i.e. being 100% funded in a suitable timescale and in making sure that contribution rates remain affordable in the future.

The Working Group had its first meeting in December to review the current investment strategy and also the final investment strategy agreed in 2011 which the Fund was moving towards before the quarterly switching from equities to bonds was suspended because of low gilt yields.

At the meeting it was agreed that the 'return' objective should be to have a strong probability of being fully funded over a 21 year time period (i.e. seven actuarial valuations hence), in effect the same funding objective set at the 2010/11 strategy review. Following the improvement in funding level at the 2016 valuation, it was agreed that the 'risk' objective should be 'improved' to that of having a low probability (1 in 10) of being below 75% at the next actuarial valuation (previously 65%). With these slightly revised objectives in mind, it was agreed that some other possible 'strawman' portfolios should be

considered with reduced allocations to equities and increased allocations to bonds and/or 'real assets'.

3. Strawmen for Review

The proposed strawman portfolios which are being considered at the working group meeting on Wednesday 8 February are detailed below:

Asset Class	Current Allocation (25/75)	Target Allocation (35/65) Bonds	Target Allocation (35/65) Real assets	Target Allocation (45/55) Bonds and real assets
UK Equity	16.0	10.0	10.0	5.0
Global Equity	34.2	30.0	30.0	25.0
Bonds	25.0	35.0	25.0	35.0
Property	8.0	8.0	8.0	8.0
HLV, Infrastructure Debt, PRS	-	-	10.0	10.0
Alternatives	10.8	11.0	11.0	11.0
Private Equity	5.0	5.0	5.0	5.0
Residual Assets/Cash	1.0	1.0	1.0	1.0
Total	100.0	100.0	100.0	100.0

4. Next Steps

The strawman portfolios detailed above are being discussed at the 8 February meeting. At this stage the portfolios demonstrate what is possible for the Fund and are for consideration and refining. The final investment strategy which will be brought to the Pension Committee for consideration, could well differ from the proposed portfolios above.

Further updates will be issued as the investment strategy review progresses.

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