

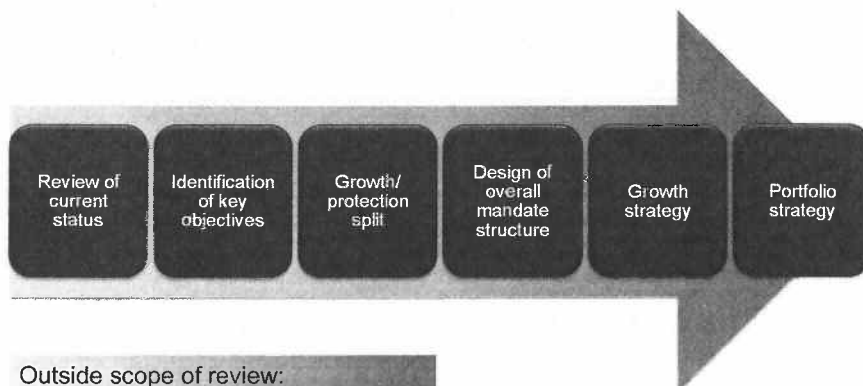
# London Borough of Bromley Pension Fund

## Investment strategy review

Marcus Whitehead FIA, Partner

9 February 2012

### Investment strategy review process

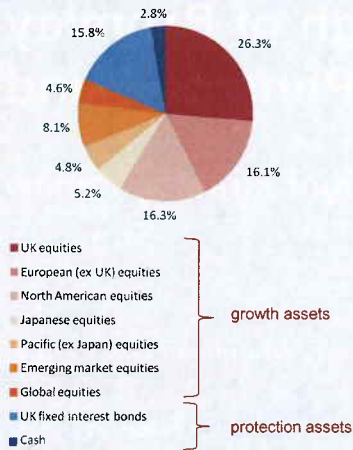


Outside scope of review:

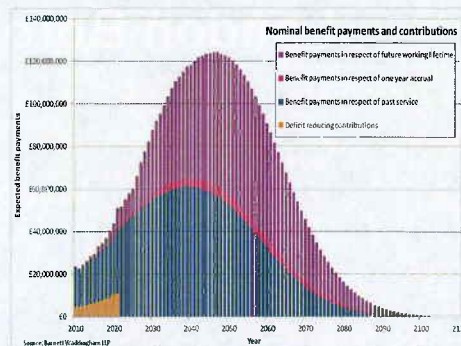
- Manager/fund selection
- Implementation considerations

# Current Fund position

## Asset allocation



## Liability profile



Source: Asset information as at 30.09.2011. Valuations sourced from Raiffe Gifford and Fidelity. Liability cashflows provided by Barnett Waddingham Public Sector Consulting Team as at 31 March 2010.

# Fund objectives

- To ensure that sufficient resources are available to meet all liabilities as they fall due.
- To achieve this with as stable as possible employer contributions at the minimum level agreed by the Actuary.
- To maximise the returns from investments within reasonable risk parameters.

Source: Funding Strategy Statement



Funding strategy sets investment return targets

Changing profile of the LGPS

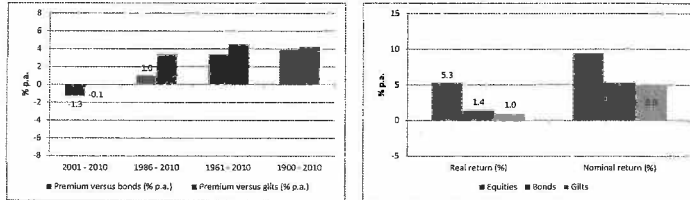
Long-term net investor

# Growth/protection split

- Actuary's investment assumptions

Investment return assumption	% per annum	Real % per annum
Equities/absolute return funds	7.5	4.0
Gilts	4.5	1.0
Bonds	5.6	2.1

- Are these returns achievable?



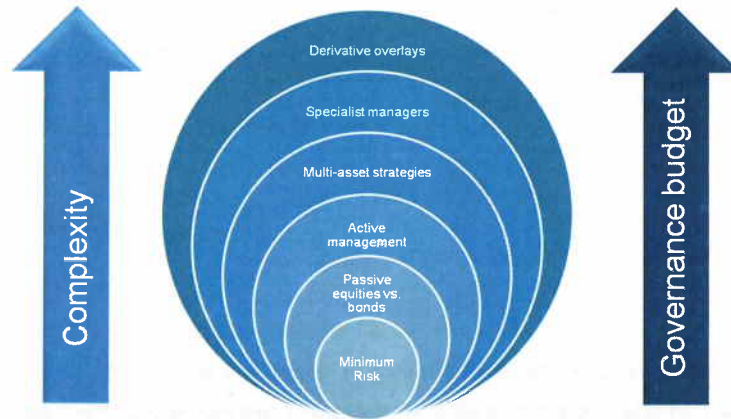
Source: Elroy Dimson, Paul Marsh and Mike Staunton, Credit Suisse Global Investment Returns Sourcebook 2011

- 80%:20% growth:protection allocation remains appropriate....
- .... but consider the separation into explicit growth and protection mandates

Design of  
overall  
mandate  
structure

## A LOOK AT THE BUILDING BLOCKS

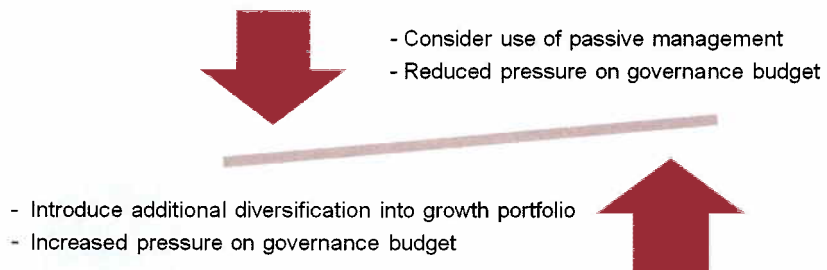
## Importance of the governance budget



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## Governance budget in operation

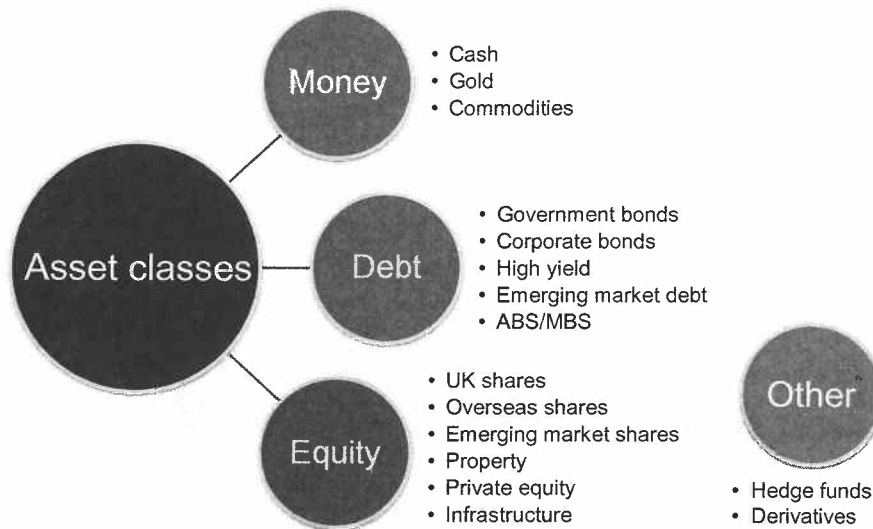


Passive core/ active satellite structure

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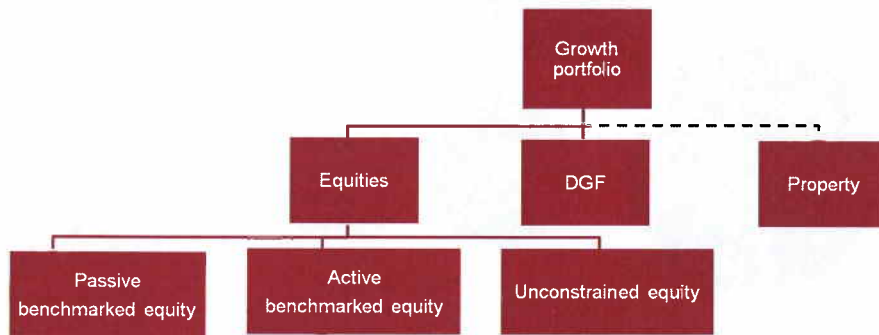
## Asset classes



Growth  
strategy

## CHOOSING RETURN-SEEKING ASSETS

## Possible growth portfolio strategies



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## Traditional investing vs DGF investing

### Traditional investing

Performance objective relates to a benchmark

Managers rarely deviate materially from benchmark

Asset class	Example benchmark (%)	Example ranges (%)
UK equities	30	25 - 35
US equities	10	8 - 12
European equities	10	8 - 12
Japan/Asia equities	10	8 - 12
Bonds	40	35 - 45
Cash	0	0 - 5

### DGF investing

Performance objective is independent of benchmark

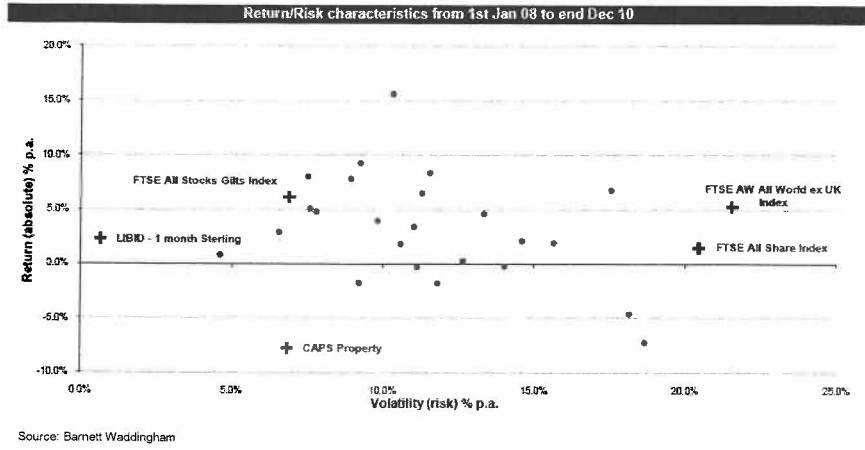
Managers have freedom to invest in a diverse portfolio of assets

Asset class	Example ranges (%)
Equities	0 - 75
Bonds	0 - 75
Alternative assets	0 - 20
Cash	0 - 100

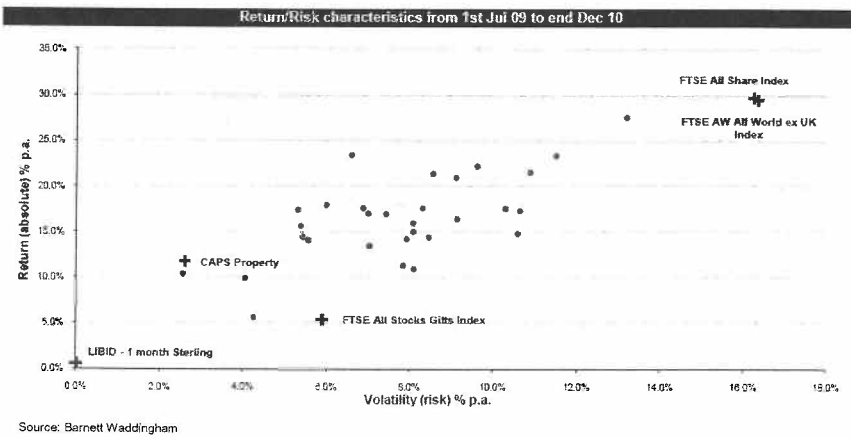
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# DGF: Risk vs return



# DGF: Bull market



Protection  
strategy

## MATCHING THE FUND'S LIABILITIES

## Protection portfolio recommendations

- Fund liabilities are entirely inflation-linked.....
- .....but the Fund's bond assets are entirely fixed interest.

Maintain equal weighting to government and corporate debt

Switch fixed interest gilts into index-linked gilts

- To introduce inflation protection into the Fund

Consider passive index-linked gilt exposure

- Limited size of index-linked gilt market



## Investment strategy proposals

Proposal		Section reference
Equity:bond split	<ul style="list-style-type: none"> <li>Maintain a strategy structured around an investment of 80% in growth type assets (i.e. equities) and 20% in protection type assets (i.e. bonds).</li> <li>However, consider the separation of the current multi-asset briefs into <b>explicit growth and protection mandates</b>.</li> </ul>	5
Management structure	<ul style="list-style-type: none"> <li>Consider adopting a core/satellite management structure, including an assessment of the <b>merits of active versus passive management</b> and the extent to which single mandates could be added to the investment strategy <b>having regard for the resulting governance implications</b>.</li> </ul>	6
Growth portfolio	<ul style="list-style-type: none"> <li>Whilst we believe the Fund's current equity portfolio is suitably diversified, we would favour the use of an <b>unconstrained global equity mandate</b>, where the manager would be given the freedom to invest in different equity regions on a tactical basis rather than being constrained to benchmark allocations.</li> </ul>	7.1
	<ul style="list-style-type: none"> <li>No separate strategic allocation to <b>emerging market or frontier market equities</b> to be considered <b>given exposure within the above mandates</b>.</li> </ul>	
	<ul style="list-style-type: none"> <li>Adding complexity to the investment strategy as noted above leads us to believe that, whilst the introduction of <b>property</b> to the investment strategy is not unreasonable, there are other demands on the <b>governance budget that should take precedence at the current time</b>.</li> </ul>	7.2
	<ul style="list-style-type: none"> <li>An active approach to <b>commodity</b> investing is preferred, although no separate strategic allocation to commodities is proposed for the Fund at this time. Instead, consider exposure to commodities through a <b>diversified growth fund</b>.</li> </ul>	7.3
	<ul style="list-style-type: none"> <li>Introduce diversification away from the equity market within the growth portfolio via the use of a <b>diversified growth mandate</b>.</li> </ul>	7.4
Protection portfolio	<ul style="list-style-type: none"> <li>Maintain an <b>equal weighting to government and corporate bonds</b> within the protection portfolio.</li> <li>Replace the fixed interest gilts exposure with <b>index-linked gilts</b> thus introducing an element of <b>inflation protection into the Fund</b>.</li> </ul>	8

## Proposed mandate allocation

All allocations as a % of total Fund assets		
	80% growth	20% protection
<b>Core: 40%</b>	30%	10%
	- passive global equities	- passive index-linked gilts
<b>Satellite: 60%</b>	50%	10%
	- 40% allocated between an unconstrained equity mandate and the Fund's existing mandates	- active corporate bonds
	- 10% diversified growth	