

## Pension Fund Panel

12 February 2019

### INVESTMENT STRATEGY REVIEW - BOND PORTFOLIO

Report by Head of Investment, Risk and Commercial Finance - Resources

#### Purpose

To review the Fund's investment strategy with regards to the bond portfolio.

#### Recommendations

To **RESOLVE** that the Panel notes the report and approves the proposal contained in Aon Hewitt's review of the bond portfolio (**exempt Annex 1**) to re-allocate a proportion of the funds currently invested in Janus Henderson's All Stocks Credit fund to the London CIV Multi-Asset Credit fund.

#### Key Points

- A. The Panel received a presentation from Aon Hewitt, the fund's investment adviser, in September 2018 on the fund's investment strategy. This highlighted opportunities to enhance the fund's risk/return profile by re-allocating a proportion of the investment grade bond holding to a multi-asset credit fund.
- B. The Panel received training on fixed income as an asset class (including multi-asset credit) in June 2018.
- C. Over the past year the London CIV has been preparing and launching its fixed income range of funds which include a multi-asset credit fund in May 2018.

#### Background

1. Following the 2016 triennial valuation, the Panel commissioned an asset/liability study to inform the update to the investment strategy. A report on the outcome of the study was presented to the Panel on 28 June 2017. This highlighted 3 main themes:
  - reduce growth asset risk
  - additional diversification
  - Increase liability matching
2. The Investment Strategy review in September 2018 highlighted the opportunity to use a multi-asset credit strategy to add diversification to the bond portfolio to generate higher returns than the liability matching assets. Further, the Investment Strategy Statement states that the Fund would transition its liquid assets to the London CIV as opportunities arise.
3. The current asset allocation of the fund is summarised in the table below. Further work is required on re-balancing the portfolio to its Strategic Benchmark Allocations and this will be presented to the Panel at subsequent meetings. The bond portfolio itself remains underweight at 12% and comprises 2 funds managed by Janus Henderson - All Stocks Credit fund (£64m) and Total Returns Bond fund (£36m).

**Table 1. Asset Allocation at 31 December 2018**

Asset class	Strategic Benchmark allocation	Rebalancing range (lower)	Rebalancing range (higher)	Current asset weighting (31/12/2018)
Equities	60%	55%	65%	60%
Bonds	15%	10%	20%	12%
DGF	20%	15%	25%	22%
Property	5%	n/a	n/a	6%
Total	100%	-	-	100%

**Bond Portfolio Review**

4. Aon Hewitt's bond portfolio review is attached at exempt **Annex 1**. This shows that by reducing the Janus Henderson All Stocks Credit fund by c.£32m and investing in the London CIV multi-asset strategy fund will lead to a greater return and less volatility than the present bond portfolio.
5. The London CIV launched their Multi Asset Credit strategy fund on 31 May 2018. The appointed manager is CQS, a global manager with over \$14 billion assets under management, of which \$5 billion is in MAC funds. At present, the Kingston fund has 18% of its assets on the London CIV platform and this would increase to 22% if the Panel agree the proposal to re-allocate the bond portfolio to the London CIV.
6. Representatives from the London CIV and CQS will be in attendance to provide further details of their offering. Panel members will have an opportunity to question them and Aon Hewitt have provided some sample questions in exempt **Annex 2**.

**Background papers**

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None other than those referred to in this report