



Havering
LONDON BOROUGH

PENSIONS COMMITTEE

10 December 2024

Subject Heading:

**INVESTMENT STRATEGY UPDATE –
EQUITY PORTFOLIO REVIEW**

ELT Lead:

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Policy context:

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Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 requires an administrative authority to periodically review the Investment Strategy Statement

Financial summary:

Implementation of the investment strategy will be met from restructuring existing mandates

The subject matter of this report deals with the following Council Objectives

People – Supporting our residents to stay safe and well	[X]
Place – A great place to live, work and enjoy	[X]
Resources – Enabling a resident-focused and resilient Council	[X]

SUMMARY

This report includes the outcome of a review of the Fund's equity portfolio by the Funds Investment Consultant, to assess whether the current allocation remains appropriate and outlines their key recommendations.

RECOMMENDATIONS

That the Committee is asked to agree:

1. To reduce the allocation to the London Collective Investment Vehicle Global Alpha Growth Paris Aligned (LCIV GAGPA) Fund from 15% to 12.5%
2. To increase the allocation to the Legal & General Investment Management (LGIM) Future World Fund from 10% to 12.5%

REPORT DETAIL

1. Background

- a) The Committee agreed the current version of the Investment Strategy Statement (ISS) at its meeting on the 12 September 2023. As set out in the ISS, the Fund has a 40% allocation to listed equity. Of this, 20% is invested in mandates within the London Collective Investment Vehicle (“LCIV”) and 20% is invested in mandates managed by Legal and General Investment Management (LGIM) (which are LCIV aligned).
- b) Following the Fund’s post-Valuation investment strategy review in 2023, it was agreed to consider the Fund’s equity portfolio in greater detail to assess whether the current allocation remains appropriate. This review was included within the Business Plan to be considered during 2024/25.
- c) Hymans, the Fund’s Investment Consultant carried out the review of the equities portfolio in September 2024.
- d) The proposed changes as recommended by Hymans will not affect the 40% allocation to listed equities but includes a switch of a 2.5% allocation from the LCIV GAGPA Fund to the LGIM Future World Fund.
- e) Based on the position as at 30 June 2024, this change would:
 - Slightly reduce the growth bias within the overall equity allocation.
 - Reduce exposure to active management within the overall equity allocation from 15% to 12.5%.

- Marginally change the regional and sectoral distribution of assets, for example, exposure to North American equity falls by 0.3% of equity exposure.
 - Increase the Weighted Average Carbon Intensity of the equity portfolio (from 111.2 to 111.8), exposure to companies tied to fossil fuel (5.9% to 6.3%) and climate solutions exposure (19% to 19.1%). It also increases the proportion of assets subject to LGIM's climate impact pledge.
 - Slightly reduce total investment management costs
- f) This change would also provide greater balance across the mandate benchmark allocations, whilst retaining a well-diversified aggregate equity allocation across region/sector/style
- f) **Appendix A**, as attached, sets out a summary of the review and details of the key recommendations.

IMPLICATIONS AND RISKS

Financial implications and risks:

The proposed change of increasing the allocation to the LGIM Future World Fund by 2.5% will be funded from the decrease in allocation from the LCIV GAGPA. 2.5% equates to c£25m based on holdings as at 30 September 2024.

The estimated costs of transitioning the LCIV GAGPA assets to the LGIM Future World Fund comprise of:

- **Advisory costs:** The advisory costs of the review of the equities portfolio will be incurred through the Investment Management consultancy services contract with Hymans. The costs incurred to date is £12.5k plus further costs in the region of £4k.
- **Transaction costs –** The estimated transaction costs for the disinvestment from the LCIV GAGPA is £20,000 and subsequent investment into the LGIM Future World Fund is £17,500.00. Overall, this is c.0.15% of the assets being traded. However, the Investment management fees for the LGIM Future World Fund is less expensive than the LCIV GAGPA and this will generate savings of c£46k p.a.

Costs arising from the implementation of the investment strategy changes will be met from the Pension Fund.

Legal implications and risks:

None directly arising from this report

Human Resources implications and risks:

None arise directly from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have ‘due regard’ to:

- i. The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. Foster good relations between those who have protected characteristics and those who do not.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have ‘due regard’ to:

Note: ‘Protected characterises’ are age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health deterrents.

An EHIA (Equality and Health Impact Assessment) is usually carried out and on this occasion this isn’t required.

The Council seeks to ensure equality, inclusion, and dignity for all in all situations. There are not equalities and social inclusion implications and risks associated with this decision

BACKGROUND PAPERS

None