Lazard London Pension Schemes: Trustees' Investment Beliefs

This document sets out the key investment beliefs of the Trustees, following a survey by LCP and a discussion of the results at a meeting on 11 November 2020. The summary below reflects both the survey and the subsequent meeting discussion.

Long term strategy and objectives

- The primary objective is to be able to buyout the liabilities with an insurer by 2030.
- Equity risk should be removed as soon as it becomes affordable to do so.
- We aim to hold a portfolio that could be transferred to an insurer (gilts and investment grade corporate bonds) by 2028 ideally, and by 2030 at the latest.
- We will consider pensioner buy-in transactions, if there is a compelling opportunity, before 2030.
- We would prefer to reduce the reliance on the Company covenant to a low level as we approach 2030, by de-risking gradually according to pre-planned triggers.
- We would prefer to take less risk than the current (2020) investment strategy (noting that this will require higher contributions from the Company).

General investment beliefs

- Equity and credit risks are likely to be rewarded over the period to 2030.
- Whilst there may be a premium from illiquidity risk, it is generally not appropriate to increase exposure to illiquid assets between now and 2030 unless suitably short-dated illiquid investments can be found.
- Currency, interest rate and inflation risk are unrewarded risks and should be hedged or avoided as far as possible.

Asset allocation

- We should not look to time markets through tactical asset allocation, but there may be a place for delegating these decisions to a specialist manager.
- Active management can add value in some asset classes (particularly credit) and may be preferable even when a passive option is available; however, it is rare in equity management for an active manager to add value consistently over long periods of time.
- For allocations to new asset classes, we should select best-of-breed managers rather than favouring current managers for simplicity.
- Pooled funds should be used where available, rather than equivalent segregated mandates.
- Higher management fees are not a barrier to investment, if the investment is expected to result in superior risk-adjusted returns after fees.
- We should increase the focus on matching our assets to expected cash flows.
- Other than interest rate and inflation hedges, we do not need to utilise derivative markets to gain exposure to asset classes.

ESG beliefs

- Investment managers used by the Schemes should have strong ESG credentials.
- We should take into account ESG and climate change risks when setting investment strategy.
- There is value in mitigating climate risk within the Schemes' portfolios, for example by considering low-carbon mandates.
- Corporate engagement is preferable to the exclusion of stocks.
- Attractive risk-adjusted returns could be achieved by being early adopters in emerging technologies and green markets.