HYMANS ROBERTSON

London Borough of Harrow Pension Fund

Strategy training

- Andrew Elliott
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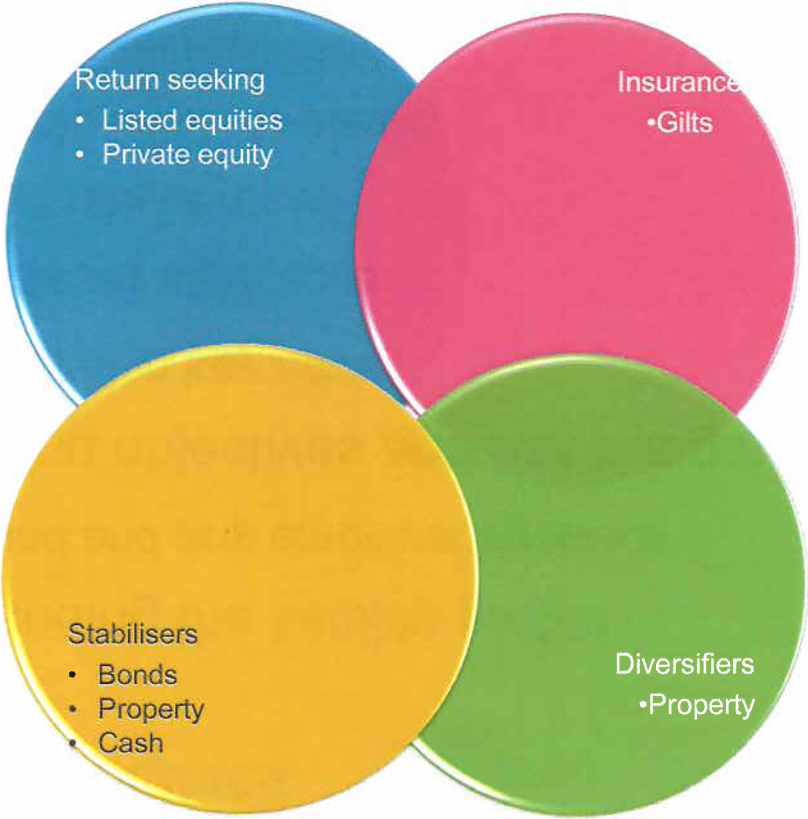
What is strategy and why is it important?

Risk and risk budgeting

- Ultimate goal is to meet liabilities (i.e. pay benefits to members)
- Through contributions and asset returns
- All funds combine risky and risk free assets
  - Scheme unaffordable using risk free assets alone
- Strategic asset allocation is about
  - Understanding risk budget
  - Setting quantum of risk budget
  - Optimising budget to obtain optimal reward

Role of asset classes



Defining objectives

- Understanding the liability profile
  - Main fund and any employer specifics
- Establishing objectives and risk budget for assets
  - Understanding key risks
- Efficient asset structure
  - Required rate of return
  - Acceptable level of volatility
  - Appropriate diversification
  - Robust over a variety of circumstances

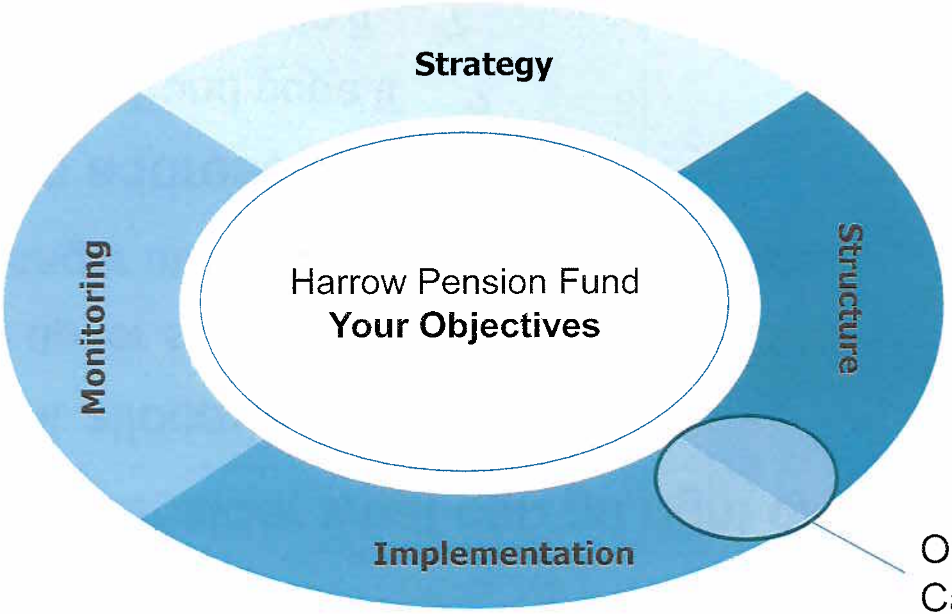
Options in an uncertain world

- Need to consider what can go right or go wrong
- Current allocation
  - Set up for single long term scenario
  - Manager mandates set for asset success
- Want to address
  - How will Fund cope if ... ?
  - What would we do if ... ?
  - What would cause me to change x?
    (x = manager, product, allocation, etc.)

The investment strategy cycle

Setting a long term course

Keeping on track



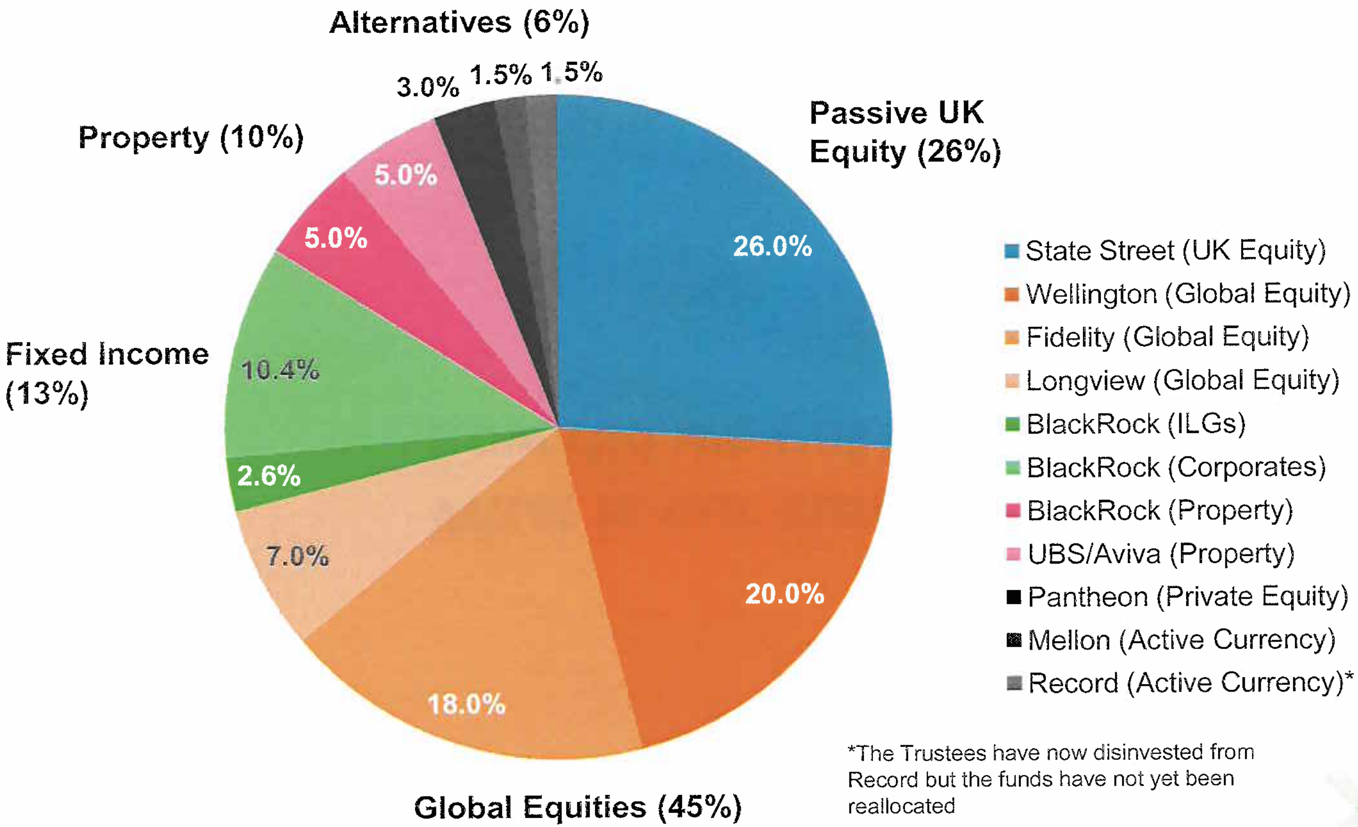
Consider your risk budget

Opportunistic – Capital Markets Service (CMS)

Implement efficiently

What is our current strategy and how did we get there?

Manager Target Allocation



*The Trustees have now disinvested from Record but the funds have not yet been reallocated

Strategic review in 2008

- Combined review of funding and investment approaches
- Funding – stabilising contributions
- Investment –
  - Range of approaches to accommodate funding stability
  - Review of structure to improve fund profile

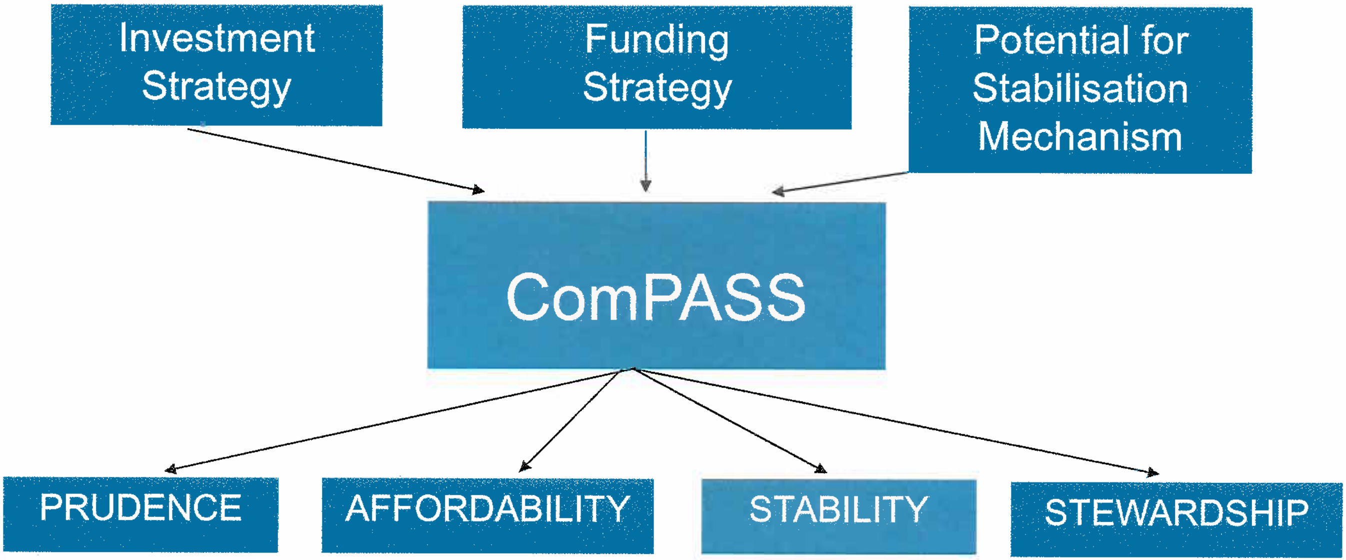
Why is it important to review strategy now?

Considerations for 2010

- Have completed initial draft 2010 valuation – Fund Actuary still supportive of stabilised funding approach
- Investment issues
  - Market conditions have changed
  - Is the current risk/return profile still appropriate?
  - Look at probability of success
  - Consider diversifying equity portfolio
  - Can we better optimise the portfolio structure?

How might we undertake the strategic review

Strategy: use "ComPASS" to help find direction



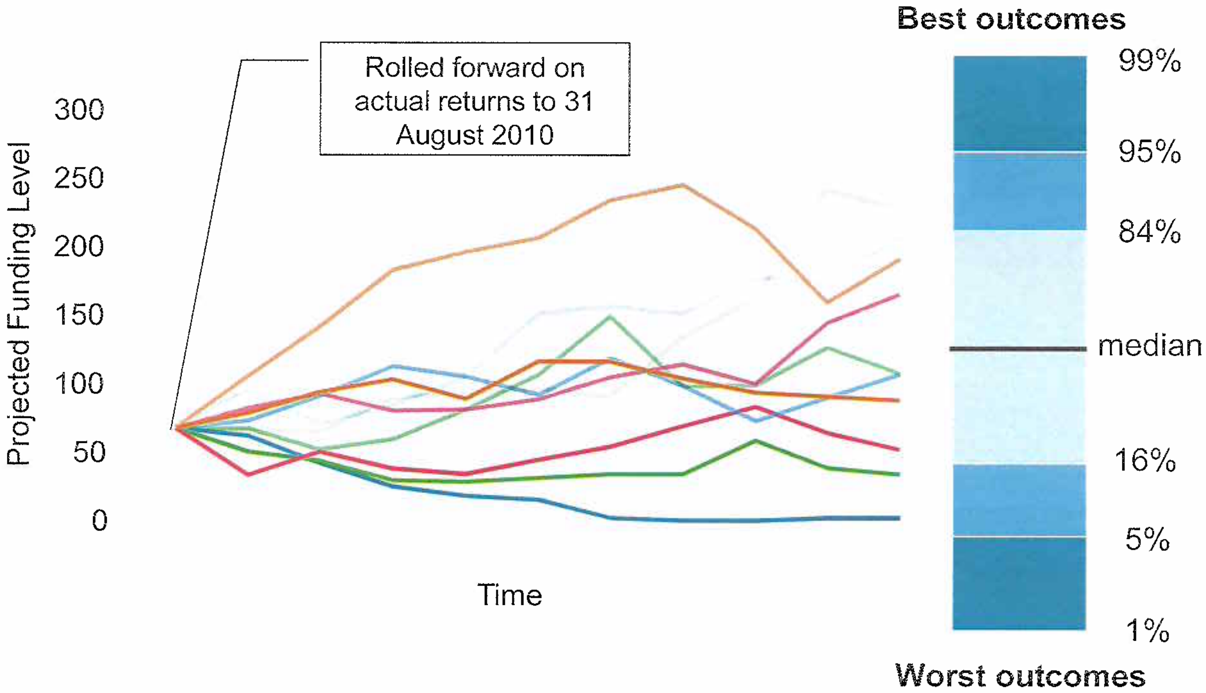
PRUDENCE
- Prudence of asset outperformance assumptions

AFFORDABILITY
- Range of potential contribution rates over time

STABILITY
- Projected contribution rate increases/ decreases between valuations

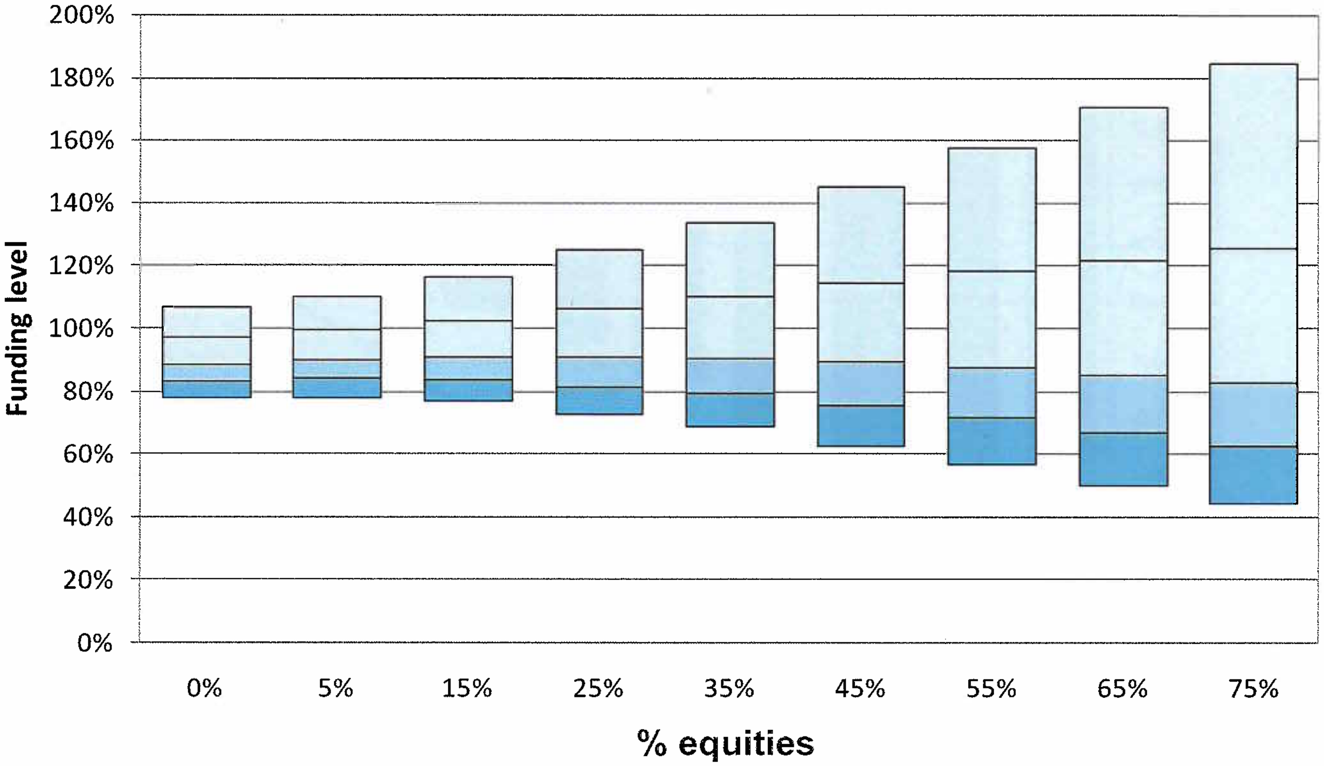
STEWARDSHIP
- Projected funding levels over time

ComPASS in action

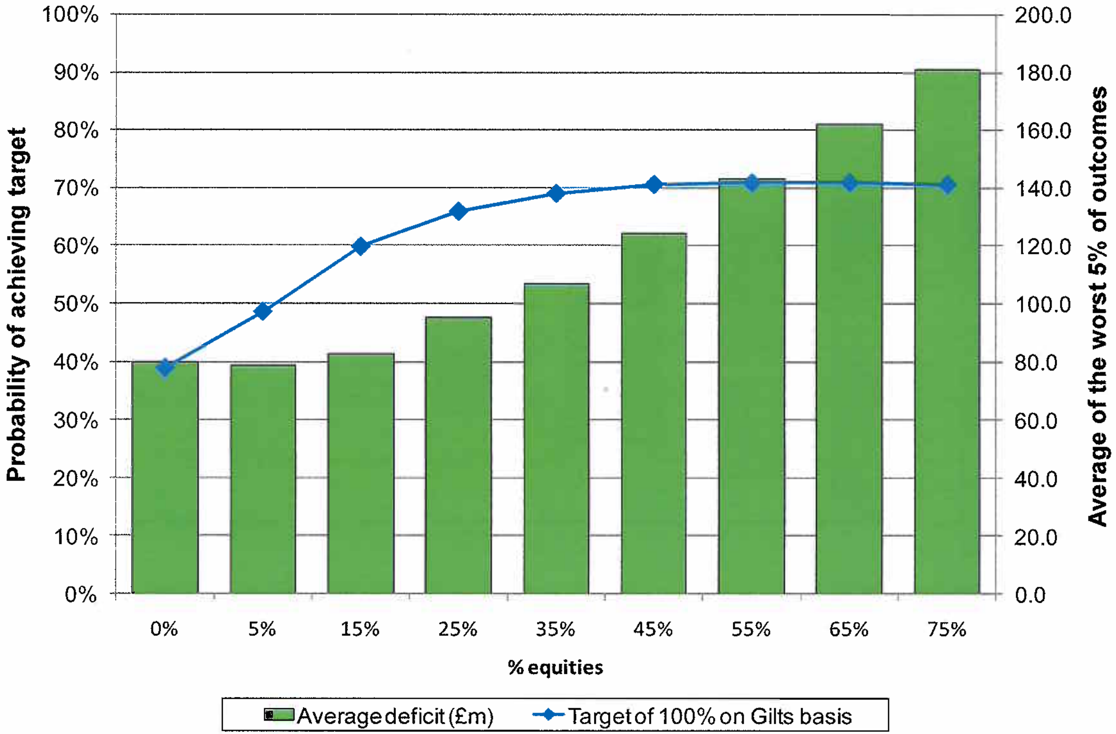


- 5,000 simulations of the future
- Rank from worst to best outcome to give distribution of possible outcomes

ComPASS in action: Range of outcomes



ComPASS in action: Probability of success

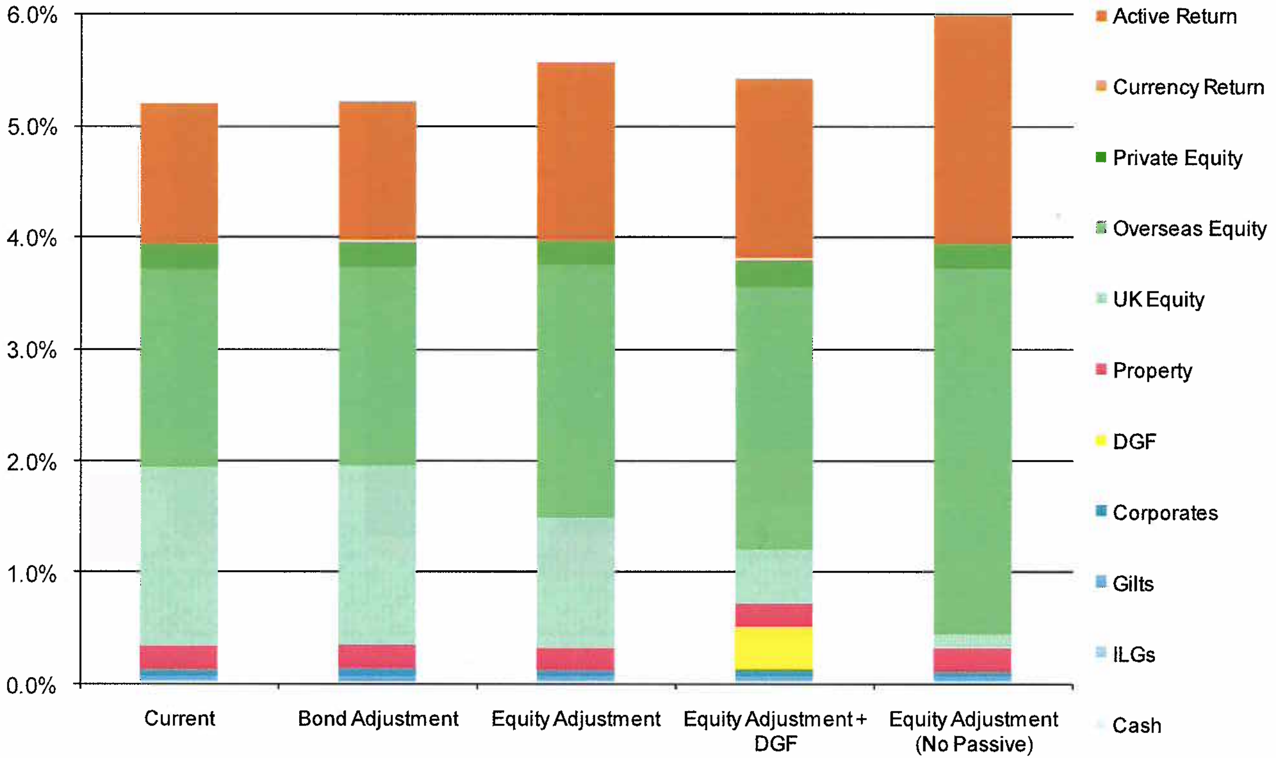


After strategic review – what comes next?

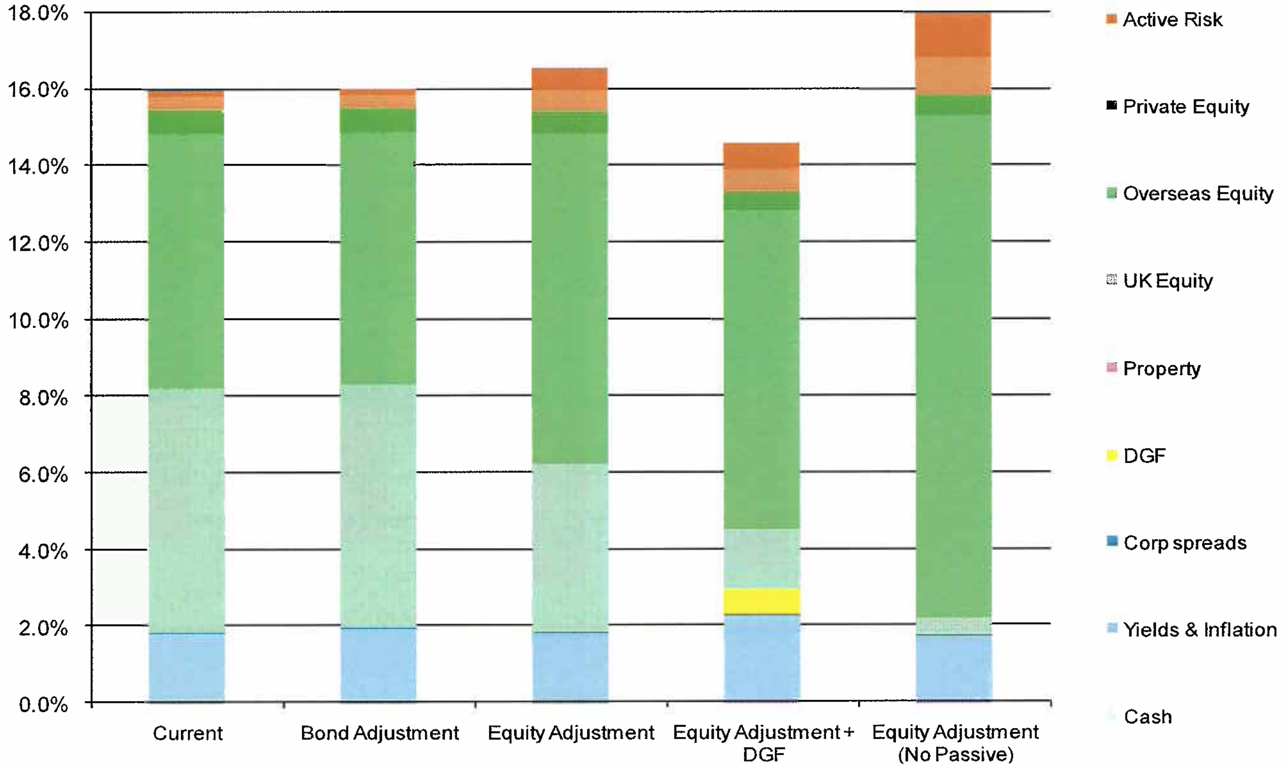
Harrow – issues to consider

Aspect	Question
Listed equities	Is the allocation too high?
UK / overseas equity mix	Is 37/63 appropriate?
Passive	What is the correct proportion?
Global equity managers	Is the split between managers appropriate?
Bonds mix	Should corporates/gilts ratio be changed?
Property – underweight	How quickly should this be addressed?
Passive currency hedge	Is it working – should we change?
Active currency	Is this working?
Additional diversification	What assets / products would you consider?
Dealing with inflation	How would you accommodate this?
Extreme adverse outcomes	Is insurance worth the cost?
Governance	Effective use of Panel (or Investment sub-committee?)

EXPECTED RETURN – 100% 'ALPHA' (2008 REVIEW)



EXPECTED RISK – 100% 'ALPHA' (2008 REVIEW)



Proposed Timeline for 2010/11

First 3 months

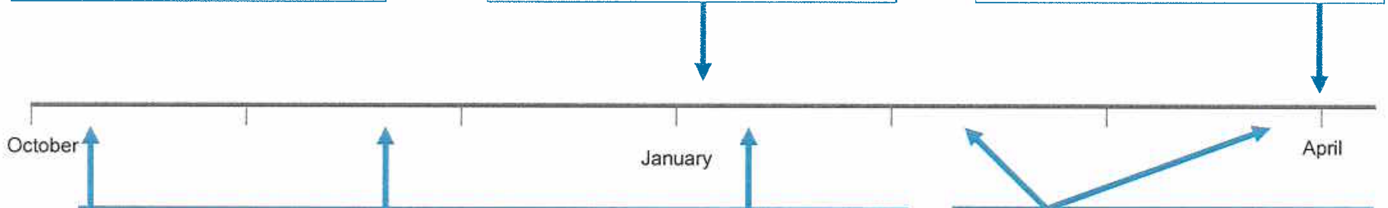
Identify key risks
Undertake strategic review
Establish risk budget and return requirements
Training programme for Panel

By January 2011

Delivery of proposals covering options, costs and implementation
Final proposal and Panel review

By April 2011

Initial implementation complete
Procurement in hand (where necessary)
Assess progress



Strategy and structure

Overall goal setting
Understanding risk, asset class returns and volatility
Output of strategy model for risk budgeting
Structure model output, diversification and building blocks

Implementation activity

Manager procurement and transition considerations

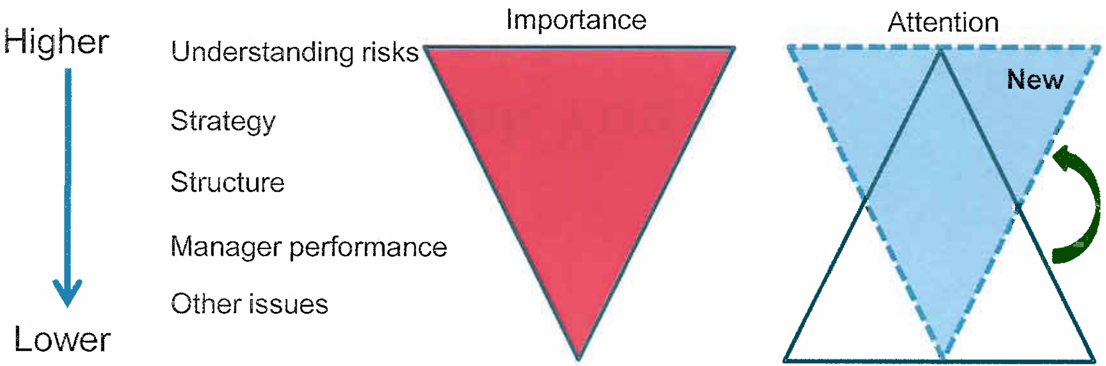
Parallel activity

Specific training activity – Members / Investment Group
Manager site visits
Understanding product objectives, features and risks
Understanding implementation
Quick wins

How do we monitor our strategy – just every 3 years?

Changing Panel priorities in the future?

- Objective setting essential
- Strategy changes: evolution not revolution
- Governance better focused



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Thank You

Any questions?

General risk warning

Please note that the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

All forms of derivatives can provide significant benefits but may involve a variety of significant risks. Exchange-traded derivatives often have better protections whereas over-the-counter ("OTC") derivatives have their own specific risks.

Derivatives, both exchange-traded and OTC, include options, forwards, swaps, swaptions, contracts for difference, caps, floors, collars, combinations and variations of such transactions, and other contractual arrangements (including warrants) which may involve, or be based upon one or more of interest rates, currencies, securities, commodities, and other underlying interests. The specific risks presented by a particular derivative transaction necessarily depend upon the terms of that transaction and your circumstances.

In particular, we draw your attention to the following: -

- Small changes in the price of the underlying security can lead to a disproportionately large movement, unfavourable or favourable, in the price of the instrument.
- There may be a total loss of money/premium. Additionally, if the instrument is subject to contingent liability, a client may be called on to pay substantial additional margin at short notice. Failure to do so, in the time required, can result in additional loss.
- The right to subscribe is invariably limited in time, with the consequence that if the investor fails to exercise his right in the pre-determined timescale the investment becomes worthless.
- Not all instruments are liquid (that is, they may be difficult or, at times, impossible to value or sell). You may incur substantial costs if you wish to close out your position. OTC derivatives in particular can introduce significant liquidity risk and other risk factors of a complex character.
- OTC derivatives may result in exposure to the creditworthiness of the derivative counter-party.

Derivatives used as part of 'protection' strategies may still expose the investor to an unavoidable difference between the underlying asset (or other interest) and the protection offered by the derivative.

In general, however, all derivatives involve risk including (amongst others) the risk of adverse or unanticipated developments of a market, financial or political nature or risk of counter-party default. In addition, you may be subject to operational risks in the event that your manager(s) does not have in place appropriate legal documentation or internal systems and controls to monitor exposures of this nature.

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