

REPORT FOR: Pension Fund Investment Panel

Date of Meeting: 8th January 2013

Subject: Review of the Pension Fund's Investment Strategy

Responsible Officer: Julie Alderson, Corporate Director of Resources

Exempt: No

Enclosures: Appendix 1 – Recommended Strategic Asset Allocations
Appendix 2 – Fund Valuation
Appendix 3 - Aon Hewitt Report

Section 1 – Summary and Recommendations

The Panel has been considering changes to the fund's investment strategy. Following the November meeting additional training was provided on diversified growth funds and the strategy previously presented to the November meeting is resubmitted for approval.

Recommendation:

The Panel is invited to review the options outlined in the Aon Hewitt report and agree a revised investment strategy.

Section 2 – Report

1. The Panel has been debating for some time the appropriate strategic asset allocation for the fund. Training has been provided on a range of investment types that the fund has not previously used, most recently on diversified growth funds (DGF). Attached is the report from Aon Hewitt submitted to the November meeting recommending a revised strategy incorporating a 14% increase in the allocation to alternatives and a corresponding reduction in equities.
2. Aon Hewitt recommends that the increased allocation to alternatives is initially invested into diversified growth funds. The proposed allocation is approximately £75 million of which £20 million is currently available in cash and the balance will require realisations from existing asset classes. In line with the strategy proposal, this would entail the disposal of £55 million of equities. Page 4 of the attached report proposes that the sales are funded from a reduction in active global equities. The Actuary will comment at the meeting on part funding through reducing the bond allocation. Members may find it useful to review the papers on this issue submitted to the meetings on 12 October 2011, 15 November 2011, 25 June 2012 and 27 November 2012.

Implementation of the Revised Strategy

3. There are number of implementation issues to be discussed at the meeting:
 - Identification of the DGF managers who will present to the Panel.
 - Reorganisation of the equity mandates.
4. Should part of the increased alternatives allocation be funded from bonds, then this will be added to the implementation list.
5. At the December training session, it was proposed that the DGF managers who will present to the Panel are based on those who attain Aon Hewitt's highest 'buy' rating. The suitability of the managers rated 'buys' will be outlined at the 8 January meeting. Once the names of the managers who will present are agreed, a meeting day with these managers will be organised for the Panel. Although the strategy proposal assumes one DGF appointment, appointing two with contrasting styles also remains a possibility.
6. Aon Hewitt's initial proposal to restructure the equity mandate will entail the termination of one "core" active mandate (Fidelity or Wellington) and additional funding to the existing unconstrained equity mandate (Longview). As this has potentially an undesirable impact both on the UK/overseas allocation and the size of the Longview equity mandate, Aon Hewitt has been asked to consider other options.

7. The process for appointing a pooled fund manager has been reviewed by the Legal department who have confirmed that it is not necessary for the Council to conduct a full EU procurement exercise. However, the tender process will still need to comply with the Council's rules relating to fairness and transparency. Compliance will be achieved through the involvement of the Procurement team.
8. Estimated costs for the planned changes are contained within the Aon Hewitt paper. The latest fund valuation is attached (appendix 2).

Financial Implications

9. The Strategic asset allocation of the fund is the most significant driver of future returns and risk and the level of contributions required.

Risk Management Implications

10. Risk included on Directorate risk register? No
11. Separate risk register in place? No
12. Setting risk tolerances and measuring outcomes is central to the strategy.

Equalities implications

13. Was an Equality Impact Assessment carried out? Yes
14. There are no direct equalities implications relating to the pension fund.

Corporate Priorities

15. Corporate Priorities are not applicable to the Pension Fund as it does not have a direct impact on Council resources.

Section 3 - Statutory Officer Clearance

Name: Julie Alderson	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 19 December 2012		
Name: Matthew Adams	<input checked="" type="checkbox"/>	On behalf of the Monitoring Officer
Date: 20 December 2012		

Section 4 - Contact Details and Background Papers

Contact: George Bruce (Treasury and Pension Fund Manager) Tel: 020-8424-1170 / Email: george.bruce@harrow.gov.uk

Background Papers: Papers and training material provided to the PFIP meetings on 12 October 2011, 15 November 2011 and 25 June 2012 and 27 November 2012.

If appropriate, does the report include the following considerations?

1.	Consultation	N/A
2.	Corporate Priorities	N/A

Recommended Strategic Asset Allocations

	Investment Strategy		
	Current Strategy	Current Allocation	Aon Hewitt Proposal
Bonds & Cash	13	18	13
Index Linked	2.6	3	2.6
Corporate	10.4	11	10.4
Cash	0	4	0
Equities	71	68	57
UK	26	25	25
Global	45	43	32
Property	10	9	10
Alternative	6	5	20
Private equity	3	5	5
Currency	3	0	0
Diversified Growth	0	0	15
Total	100	100	100

Appendix 2

Total Portfolio Allocation by Manager & Asset Class

30 November 2012

Asset Class	Value 30.06.12 £'000	Value 31.10.12 £'000	Value 30.11.12 £'000	Allocation 30.11.12 %	Strategic Allocation %	Strategic Range %
Equities						
UK Equities						
State Street	119,063	125,973	128,200	25.5%	26%	
Global Equities						
Fidelity	81,451	85,237	86,356	39.8%	40.0%	
Wellington	91,558	93,838	94,990	43.8%	45.0%	
Longview	32,906	34,505	35,588	16.4%	15.0%	
Total - Global Equ.	205,915	213,580	216,934	43.2%	45%	
Total Equities	324,978	339,553	345,134	68.7%	71.0%	66-76%
Private Equity						
Pantheon	24,170	23,728	23,812	4.7%	3%	N/A
Property						
Aviva	37,290	42,120	42,032	8.4%		
UBS	0	0	0	0.0%		
Total - property	37,290	42,120	42,032	8.4%	10%	8 - 12%
Bonds						
BlackRock - FI	51,457	55,137	55,330	79.6%	80.0%	
BlackRock - IL	12,941	13,734	14,186	20.4%	20.0%	
UBS	0	0	0	0.0%		
Total Bonds	64,398	68,871	69,516	13.8%	13%	11 - 15%
Active Currency						
Mellon	0	0	0	0.0%	3%	N/A
Cash & NCA						
Cash managers	1,241	211	849			
Cash internal	24,118	21,832	21,000			
Passive curr hedge	287	612	454			
Debtors and Creds	-285	-263	-215			
Misc	10	10	10			
Total	25,371	22,402	22,098	4.4%	0%	N/A
Total Assets	476,207	496,674	502,592	100%	100.0%	