

Haringey Council

Report for:	Corporate Committee 14 th March 2013	Item number	
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Title:	Pension Fund: Asset Allocation advice
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Report authorised by :	<i>J. Parker 6/3/13.</i> Director of Corporate Resources
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Lead Officer:	Nicola Webb, Head of Finance – Treasury & Pensions nicola.webb@haringey.gov.uk 020 8489 3726
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Ward(s) affected: N/A	Report for Non Key Decision
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1. Describe the issue under consideration

- 1.1 This report considers the Pension Fund's current asset allocation and recommends movements towards the agreed strategic benchmark.

2. Cabinet Member Introduction

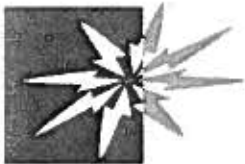
- 2.1 Not applicable.

3. Recommendations

- 3.1 That the asset allocation moves set out in the Advice Table on page 5 of Appendix 1 are implemented.

4. Other options considered

- 4.1 None.



5. Background information

- 5.1 At the time of agreeing the new investment strategy for the Pension Fund, the Committee agreed the assets would be transferred to the new fund managers in their existing allocations and that asset allocation advice would be taken from the investment advisers, Aon Hewitt to move to the agreed strategy on a gradual basis taking into consideration conditions in the market.
- 5.2 At the meeting on 22nd January 2013 Aon Hewitt presented a timetable of proposed moves which would achieve the strategic asset allocation by the end of 2013. The moves agreed at that meeting were implemented on 1st February 2013.

6. Comments of the Chief Financial Officer and financial implications

- 6.1 This report recommends the next set of timetabled moves to achieve the strategic asset allocation by the end of the calendar year. Implementing the moves on a gradual basis mitigates the risk to performance of making one large move.

7. Head of Legal Services and Legal Implications

- 7.1 The Council as administering authority for the Pension Fund has the power to invest fund monies as set out in Local Government Pension Scheme (Management and Investment Funds) Regulations 2009.
- 7.2 All investments must comply with the Council's published investment policy and the asset allocation must be in accordance with the investment strategy adopted on 12 April 2011. This second allocation forms part of the strategic asset allocation to the new fund managers.

8. Equalities and Community Cohesion Comments

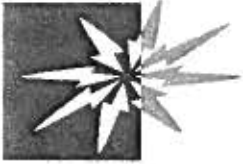
- 8.1 Not applicable.

9. Head of Procurement Comments

- 9.1 Not applicable.

10. Policy Implications

- 10.1 None.



Haringey Council

11. Use of Appendices

11.1 Appendix 1: Aon Hewitt – Asset Allocation Process

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Asset Allocation

13.1 At the meeting on 22nd January 2013 the Committee agreed to the first set of asset allocation moves towards the strategic asset allocation and these were implemented on 1st February 2013. Aon Hewitt have prepared a report setting out their advice for the second set of asset allocation moves to the strategic benchmark in 2013 and this is attached at Appendix 1.

13.2 This shows that following the sale of the corporate bonds on 1st February 2013, the Pension Fund is overweight in its allocation to equities (74.7% compared to 70%). Offsetting this overweight, the property and private equity allocations are underweight, but these are long term asset classes which cannot be added to quickly. Property and private equity, along with other alternative asset classes, are currently being considered by the working group. Recommendations will be brought to the Committee once the review is complete.

13.3 Aon Hewitt have recommended that the planned moves take place over time for all asset classes and that the overweight position in equities is temporarily maintained. These recommendations have been discussed with Aon Hewitt and are supported by officers and the Independent Adviser.



London Borough of Haringey
Date: 5 March 2013
Prepared for: Working Group
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Emily McGuire

Asset Allocation Process

Introduction

The Corporate Committee ("the Committee") of the London Borough of Haringey Pension Fund ("the Fund") has decided to move to the strategic benchmark over a period of time, taking into consideration the medium term asset allocation advice ("MTAA") advice from Aon Hewitt to move faster on an opportunistic basis if market conditions are favourable. The purpose of this note is to provide the working group of the Fund with advice regarding the second timetabled switch.

Establishing the Objectives

An important step in establishing any process is to set the objectives that the process is designed to achieve. It is our understanding that the key objectives of the asset allocation process are as follows;

- To move the Fund's asset allocation to the strategic benchmark by the end of 2013
- To identify trends in underlying markets
- To realise in the short term outperformance from underlying regional equity markets without compromising the intention to move to the strategic benchmark by the end of 2013.
- To support the Working Group and Committee through the process.

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Asset Allocation

The strategic asset allocation and current (13 February 2012) allocation are set out in the table below:

	Overall		LGIM		BlackRock		CBRE		Pantheon	
	Strategic %	Current %	Strategic %	Current %	Strategic %	Current %	Strategic %	Current %	Strategic %	Current %
Listed Equities	70.0	74.7	26.3	26.3	43.7	48.4				
UK	17.5	25.4	2.6	2.5	14.9	22.9				
North America	25.3	19.3	3.8	2.2	21.5	17.2				
Europe ex UK	8.6	11.0	4.3	5.7	4.3	5.3				
Asia Pacific ex Japan	4.0	3.8	2.0	1.8	2.0	2.0				
Japan	4.1	5.1	3.1	3.9	1.0	1.1				
Emerging markets	10.5	10.1	10.5	10.1						
Index-linked gilts	15.0	14.6	3.0	2.9	12.0	11.7				
Property	10.0	6.5					10.0	6.5		
Private equity	5.0	4.0							5.0	4.0
Cash	0.0	0.1								
Total	100.0	100.0	29.3	29.2	55.7	60.1	10.0	6.5	5.0	4.0

Source: Northern Trust. Figures may not add up due to rounding.

The Working Group are currently undertaking a review of the Private Equity and Property allocations. Therefore, due to the illiquid nature of Private Equity and Property and the ongoing review they are not included in the rebalancing timetable. The asset allocation process is only focused on the equity and bond allocations.

Rebalancing timetable

In order to ensure that the Fund has reached its strategic benchmark by the end of 2013 we have designed a timetable that removes a quarter of each assets class's divergence from the strategic allocation each quarter. It should be noted that the actual movements will differ from the timetable amounts to reflect relative market movements over the year.



Rebalancing Timetable

	Current Under/Overweight Position	Quarter 2 2013 %		Quarter 3 2013 %		Quarter 4 2013 %	
		Switch	Under/ Overweight	Switch	Under/ Overweight	Switch	Under/ Overweight
UK	+7.9	-2.7	+5.2	-2.6	+2.6	-2.6	0.0
North America	-6.0	+2.0	-4.0	+2.0	-2.0	+2.0	0.0
Europe ex UK	+2.4	-0.8	+1.6	-0.8	+0.8	-0.8	0.0
Asia Pacific ex Japan	-0.2	+0.1	-0.1	+0.1	0.0	0.0	0.0
Japan	+1.0	-0.3	+0.7	-0.4	+0.3	-0.3	0.0
Emerging markets	-0.4	+0.2	-0.2	+0.1	-0.1	+0.1	0.0
Index-linked gilts	-0.4	+0.1	-0.3	+0.1	-0.2	+0.2	0.0

Recommendation

Our recommendation is to use the process described in the paper to move towards the strategic allocation, making movements based on Aon Hewitt's advice at each quarterly meeting. Our recommendations are set in the table on the following page. There are two key recommendations with all other switches proceeding as timetabled:

- Stay overweight equities relative to bonds
- Move regional equities in line with benchmark relative to each other

To calculate the switches the regional weightings were scaled to reflect the equity overweight. For example UK equities make up 25% of the equities, so keeping the equities at 74.7% overall the neutral weighting to UK equities would be 18.7%. The switched amounts were then calculated based on reaching this revised allocation over the next three switching dates.

The result of these switches is detailed in the table below.

	Strategic Allocation %	Current Allocation %	New Allocation %
Listed Equities	70.0	74.7	74.7
UK	17.5	25.4	23.1
North America	25.3	19.3	21.9
Europe ex UK	8.6	11.0	10.4
Asia Pacific ex Japan	4.0	3.8	4.0
Japan	4.1	5.1	4.8
Emerging markets	10.5	10.1	10.5
Index-linked gilts	15.0	14.6	14.6
Property	10.0	6.5	6.5
Private equity	5.0	4.0	4.0
Cash	0.0	0.1	0.1
Total	100.0	100.0	100.0

Advice Table

Asset Class	Strategic Allocation (%)	Current Allocation (%)	Underweight/Overweight Position (%)	Timetabled Move (%)	Aon Hewitt view on asset class	Recommendation	Rationale
UK	17.5	25.4	+7.9	-2.7	Neutral	Sell 2.3%	We have no strong views on UK equity, but are negative on US equities. We recommend making the timetabled move.
North America	25.3	19.3	-6.0	+2.0	Negative	Buy 2.6%	We believe that the valuations in North America are the least attractive of all equity regions and therefore we would recommend just the timetabled move to reduce the underweight.
Europe ex UK	8.6	11.0	+2.4	-0.8	Neutral	Sell 0.6%	The macroeconomic outlook for Europe is not good, however we feel valuations are very low for European stock markets, especially given that half of all revenues come from outside the region. We recommend making the timetabled move.
Asia Pacific ex Japan	4.0	3.8	-0.2	+0.1	Neutral	Buy 0.2%	We currently have a neutral view on Asia Pacific equities, and are comfortable with the slight underweight with a zero first switch.
Japan	4.1	5.1	+1.0	-0.3	Positive	Sell 0.3%	Despite strong performance in local currency terms we believe Japanese equities are still attractively priced. However, we recommend making the timetabled move to slightly reduce the overweight.
Emerging Markets	10.5	10.1	-0.4	+0.2	Neutral	Buy 0.4%	After an extended period of emerging market underperformance, expectations have moved lower and relative valuations are now better aligned. We recommend moving to the benchmark position.
Index-linked gilts	15.0	14.6	-0.4	+0.1	Negative	Maintain slight underweight position	Index-linked Gilts are trading at historically low and even negative real yields. We would not recommend buying ILGs at the current time.



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