




Haringey Council

Agenda item:

Pensions Committee

On 15 April 2010

Report Title. Quarterly Asset Allocation review	
Report of The Chief Financial Officer	
Signed : 	
Contact Officer : Colin Duck – Corporate Finance Telephone 0208 489 3731	
Wards(s) affected: All	Report for: Non key decision
1. Purpose of the report 1.1. To review the Fund's asset allocation position.	
2. Introduction by Cabinet Member 2.1. Not applicable.	
3. State link(s) with Council Plan Priorities and actions and /or other Strategies: 3.1 This report links in with the need to regularly monitor the performance of the Pension Fund.	
4. Recommendation 4.1 That changes to the Fund's Asset Allocation position be considered.	
5. Reason for recommendation 5.1 The Council's external investment advisors, Hewitt, advise that value can be obtained by making some changes to the current asset allocation.	

<p>6. Other options considered</p> <p>6.1. None.</p>
<p>7. Summary</p> <p>7.1. This report considers the latest Asset Allocation advice received from the Fund's external investment advisors. This will be updated further at the meeting taking account of up to date market data and views.</p>
<p>8. Head of Legal Services Comments</p> <p>8.1. The Head of Legal Service has been consulted on the content of this report and comments that the Committee should give full consideration to the financial advice received concerning recommendations for changes to the current asset allocation. Members are reminded of the duty on an administering authority to conduct a coherent overview of investment activity and performance of the Pension Fund in order to ensure the suitability of investments and types of investments.</p>
<p>9. Equalities & Community Cohesion Comments</p> <p>9.1 There are no equalities issues arising from this report.</p>
<p>10. Consultation</p> <p>10.1. Not applicable.</p>
<p>11. Service Financial Comments</p> <p>11.1. The Pension Fund receives Hewitt's quarterly active asset re-balancing proposals as produced by their Asset Allocation team at a cost of £30k per annum. This cost includes presenting these proposals at meetings of Pensions Committee.</p> <p>11.2. The cost of the quarterly investment outlook updates should be more than offset by additional performance returns made by the Fund by following an active asset re-balancing strategy.</p>
<p>12. Use of appendices /Tables and photographs</p> <p>12.1. Appendix 1 - report by Hewitt.</p>
<p>13. Local Government (Access to Information) Act 1985</p>

13.1 Update on Asset Allocation issues report and presentation by Hewitt to Pensions Committee on 29 January 2009.

14. Background

14.1 Pensions Committee on 30 April 2009 considered a report on Asset Allocation and agreed that:

- an active asset allocation rebalancing strategy be introduced on a quarterly basis;
- that the asset allocation review service be provided by Hewitt and that the budget be amended to reflect this;
- that decisions be delegated to the Chief Financial officer in consultation with the Chair of Pensions Committee, if any asset allocation changes need revising urgently in between quarterly meetings of Pensions Committee.

14.2 At the 18 June 2009 meeting of Pensions Committee, following consideration of Hewitts first quarterly Asset Allocation report it was agreed that a 2% switch be made from conventional gilts to corporate bonds. That switch (equivalent to £9.95m) was made on 6 August 2009 within Fidelity's fixed income portfolio. Hewitts now advise that the beneficial effect on the Fund of that switch based on unaudited data for the six months of August 2009 to January 2010 amounts to approximately £660,000. Future reports will continue to monitor the performance of that decision.

14.3 The fourth Quarterly Asset Allocation report is appended from the Pension Fund's external investment advisors. This report gives an executive summary, quarterly investment outlook and a market update as at 31 January 2010.

Quarterly Asset Allocation review

14.4 Hewitt's report shows the Fund's asset allocation and benchmark weightings as at 26 January 2010 as provided by the Custodian, Northern Trust. Summary numbers are as follows. The last column shows Hewitt's suggested range.

	Actual allocation as at 26/01/10 %	Benchmark %	Suggested range %
UK equities	27.2	30.5	25 – 35
Overseas equities	34.7	34.5	30 – 40
UK gilts	4.6	7.0	0 – 10
Index linked gilts	6.3	6.0	0 – 20
Corporate bonds	12.4	7.0	0 – 15
Private equity	2.0	5.0	2 – 5
Property	6.7	10.0	5 – 15
Cash	6.1	0	0 - 10
Totals	100	100.0	

- 14.5 Hewitts view is that the benign environment that has strongly boosted asset prices is ending. A reversal of easy monetary conditions is about to begin.
- 14.6 High budget deficits, the end of Bank of England bond purchases and cyclical factors will push gilt yields higher, even as short-term interest rates stay low.
- 14.7 Hewitts are of the view that equities are losing support, impacted by the changed monetary environment, higher bond yields and a challenging profits outlook.
- 14.8 Despite a recently strong showing by property, Hewitts still favour this asset class.
- 14.9 Concerning the Pension Fund Hewitt advise that:
- Equities have had a good run but will struggle from here. Consequently, Hewitts are comfortable with the 3.3% underweight position overall.
 - Corporate bonds have done very well over the last six months and gilts are looking expensive. Hewitts' advice is to reduce gilts by 2.0% (approximately £12.5m), index linked by 0.3% (approximately £2m) and corporates by 2.4% (approximately £15m) holding this in cash for the moment. Hewitts' recommendations is that the cash raised is made available to be invested in property up to the benchmark weighting.
 - Concerning property, Hewitts remain convinced that opportunities will come and that the underweight position in property will be closed through active purchasing by the property manager in due course.
 - The Fund's private equity allocation should not be increased at this time

Conclusions

- 14.10 Hewitt have provided their latest Quarterly Asset Allocation review report as appended. The report makes recommendations for considering changes to the Fund's current asset allocation with suggested ranges for asset allocation also given.
- 14.11 Hewitt will attend Pensions Committee and give specific recommendations, if necessary after taking account of up to date market data.