



Report for:	Corporate Committee 23 rd January 2012	Item number	
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Title:	Pension Fund: Implementation of investment strategy
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Report authorised by :	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 Following on from the decision to appoint the passive fund managers, this report considers the next steps and decisions required to implement the new investment strategy.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

- 3.1 That the bond and equity assets of the Pension Fund are transferred from Capital International and Fidelity to the passive managers in line with their existing asset allocation, with the formal adoption of the new benchmark for performance measurement purposes taking effect from 1st April 2012.
- 3.2 That the Committee adopts an active rebalancing policy using on-going advice from Aon Hewitt on a quarterly basis.
- 3.3 That the Committee adopts the monitoring parameters set out in table 1 in section 13.4 as the levels at which formal reviews of asset allocation are triggered.



3.4 That where asset allocation decisions are required between Committee meetings, the Committee delegates such decisions to the Director of Corporate Resources in consultation with the Chair having taken into account of the views of the Pensions Working Group.

4. Other options considered

4.1 The report of the Pension Fund's investment adviser, Aon Hewitt, in Item 25 sets out the other options for each of the recommendations.

5. Background information

5.1 In April 2011 the Pensions Committee decided to move to a new investment strategy for the Pension Fund with equities and bonds managed on a passive basis and with a new benchmark.

5.2 On 24th October 2011 Corporate Committee agreed the appointment of Legal & General Investment Management and BlackRock Investment Management to manage the equity and bond elements of the Pension Fund. The report from the Pension Fund's investment adviser, Aon Hewitt, noted that a report on implementation of the new strategy would be brought to the January meeting.

6. Comments of the Chief Financial Officer and financial implications

6.1 The recommendation to make the initial movement from the existing fund managers to the new ones without changing the asset allocation will ensure the Committee can take a measured approach to moving to the new benchmark. Taking quarterly asset allocation advice will ensure the movements which are subsequently made to get to the new benchmark consider the market conditions prevailing at the time.

6.2 The move to the passive fund managers is expected to save approximately £1m per annum in fund management fees.

7. Head of Legal Services and Legal Implications

7.1 The Head of Legal Services provided comments in the report of 24 October 2011 when the Committee approved the appointment of the passive investment managers following a procurement process. This report seeks authority to implement that decision. The transfer of assets from Capital International and Fidelity should be done in accordance with the terms and condition under which these assets are held by these organisations so as to minimise any costs penalties (if any) to the Fund;



7.2 Subject to the various decisions to be taken and mentioned in paragraph 13 of this report the assets should only be moved once the legal documentations with the new passive investment managers are in place and approved by Legal Services.

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.

11. Use of Appendices

11.1 None

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Implementation of the new investment strategy

13.1 The report by the Pension Fund's investment advisers, Aon Hewitt, on the implementation of the strategy contains exempt information and is therefore included at Item 25 on this agenda. It covers the decisions the Committee needs to make to enable the implementation of the new benchmark to take place. The Pensions Working Group met informally on 3rd January 2012 to discuss a draft version of Aon Hewitt's report and the report reflects their comments.

13.2 The first decision that needs to be made is how and when the equities and bonds are moved to the new fund managers. It is recommended that the assets are moved to the new fund managers as soon as the legal documentation is in place. This is beneficial to the fund in terms of paying passive management rather than active management fees as soon as possible. It is also recommended that the assets are moved across in their current allocations to avoid unintended costs which could arise from a wholesale move at a time of market volatility.

13.3 The second decision relates to how the assets will move to the new benchmark and how rebalancing back to the benchmark will happen going forward. It is recommended that quarterly asset allocation



advice is taken from Aon Hewitt, so that the Fund can react to what is happening in the world markets and take advantage of this either to improve return or manage risk.

- 13.4 The next decision relates to monitoring parameters around the benchmark weights designed to trigger formal reviews of asset allocation. The suggested parameters summarised below would ensure that the Fund's asset allocation does not move too far from the agreed benchmark without a formal review of the position.

Table 1: Proposed monitoring parameters

UK Equities	+ / - 4.0%
Overseas Equities	+ / - 5.0%
North America	+ / - 5.0%
Europe ex UK	+ / - 2.5%
Pacific ex Japan	+ / - 2.0%
Japan	+ / - 2.0%
Emerging Markets	+ / - 2.5%
UK Gilts	0 - 10.0%
Index Linked Gilts	+ / - 2.5%
Corporate Bonds	0 - 10.0%
Private Equity	0 - 7.5%
Property	+ / - 2.5%
Cash	0 - 10.0%

- 13.5 The fourth decision covers the eventuality when the trigger for a formal review happens outside the timetable of Committee meetings. The Council's Constitution provides a protocol for urgent decisions to be taken by the relevant Chief Officer who should determine whether it is advisable to consult the Committee Chair. It is recommended that this protocol is used for asset allocation decisions but that the decision would be taken by the Director of Corporate Resources in consultation with the Chair having taken into account the views of the Pensions Working Group.