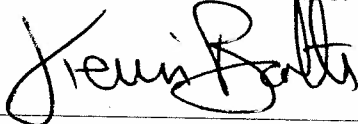




Haringey Council

Report for:	Corporate Committee 28 th June 2012	Item number	
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Title:	Pension Fund: Transition cost summary
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Report authorised by :	Interim Chief Financial Officer 
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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 provides the Committee with information about the costs of the transition to the new fund management arrangements.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

- 3.1 That the report is noted.

4. Other options considered

- 4.1 None.

5. Background information

- 5.1 A review of the Pension Fund's investment strategy took place in response to concerns about the poor performance compared to target of the existing strategy.



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- 5.2 It was reported to the Committee on 15th May 2012 that the majority of the movements from the active fund managers to the passive fund managers had taken place and that the expected cost of the transition would be around £700k.

6. Comments of the Chief Financial Officer and financial implications

- 6.1 The cost of the transition increased to £842k from the estimate in May as the costs incurred are levied as a percentage of the value of holdings and the value increased in the period. The cost of the transition needs to be viewed in the context of the on-going saving in investment management fees of £1m per annum.

7. Head of Legal Services and Legal Implications

- 7.1 The Head of Legal Services provided comments in the reports when the Committee approved the appointment of the passive investment managers. This report sets out the costs incurred in transferring the assets from Capital International and Fidelity under that process.

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 Appendix 1: Aon Hewitt – Transition report

12. Local Government (Access to Information) Act 1985

- 12.1 Not applicable.



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13. Transition costs

- 13.1 In order to put in place the Committee's decision to move the Fund's equity and bond assets from active management to passive management, it was necessary to move assets from the accounts previously run by Capital International and Fidelity to Legal & General and BlackRock.
- 13.2 The previous investment managers were active managers who only held a subset of each market and held stocks in different weights to the benchmark as they sought to outperform it. This meant that a number of transactions were required to move the equity and bond holdings from an active to a passive basis, where stocks are held in line with benchmarks. These costs include commission charges paid to brokers and taxes such as stamp duty paid to governments when transactions are undertaken.
- 13.3 Aon Hewitt have prepared a report on the final costs of the transition and this is attached at Appendix 1. This report shows the total cost of the transition was £842,153. Two key factors ensured that it was possible to keep the cost to 0.12% of the Fund, rather than the 0.4-0.5% estimate for transitions Aon Hewitt usually see. These are firstly that the majority of the assets held by the previous fund managers were moved to the new managers "in-specie" i.e. the stocks moved instead of them having to be sold for cash and purchased again. The second key factor is that in re-arranging the portfolios from active to passive both BlackRock and Legal & General were able to "cross holdings" with other clients. This means they could match a client who wanted to sell a stock the Fund needed with the Fund to avoid brokerage costs.

London Borough of Haringey

Date: 14 June 2012
 Prepared for: Corporate Committee
 Prepared by: Colin Cartwright

Transition Report

Introduction

At the Corporate Committee meeting on 23 January 2012 the Committee approved the transfer of the active equity and bond assets to two passive managers, Legal & General and BlackRock. The transition of the assets took place between 9 and 18 May 2012. This report gives details of the transition process and a summary of the costs incurred.

Pre-Trade position

The table below summarises the pre-trade asset allocation, as at 4 May 2012.

Asset Class	Capital		Fidelity		Manager				Pantheon		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
UK Equity	35.8	18.2	38.9	15.8			119.7	65.9			194.4	27.5
Overseas Equity	107.9	54.7	109.9	44.6			61.9	34.1			279.7	39.5
Index-linked Gilts	53.6	27.1	68.6	27.8							122.2	17.3
Corporate Bonds			29.2	11.9							29.2	4.1
Property					53.0	100.0					53.0	7.5
Private Equity									29.0	100.0	29.0	4.1
Total	197.4	100.0	246.6	100.0	53.0	100.0	181.6	100.0	29.0	100.0	707.5	100.0

Source: Northern Trust

Transition Summary

The Officers, Aon Hewitt and the fund managers involved undertook extensive planning of the transition exercise. In the process it was possible to identify a number of areas where we could reduce the cost of the transfer, this included: arranging in-specie transfers of stock between the managers to avoid the cost of buying and selling stock, exiting the Fidelity pooled funds at zero cost, utilising LGIM and BlackRock passive funds to reduce restructuring costs and arranging for assets to be transferred in a tax efficient way to avoid stamp duty on UK equities.

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Costs Of transactions There were no costs incurred exiting Fidelity and Capital. The following table summarises the costs incurred into for the trades into BlackRock:

Cost of transfer in-specie transfers into the fund	£146,114
Costs of trading non-index stocks	£68,220
Costs of cash purchases	£229,315
Stamp duty (Hong Kong)	£7,298
Costs of transfer from L&G	3,360
Total Costs	£454,307

The table below summarises the costs which were incurred for the transitions into L&G

Charge of transfer into fund for non-index stocks	£54,855
Costs of cash transactions	£145,072
Costs of rebalance	£178,043
Stamp duty	£7,373
Interest charge for prefunding	£2,502
Total Costs	£387,846

Source: Managers

The two tables are slightly different due to the different processes which BlackRock and L&G have for implementing the transfers. The restructuring costs are net of crossing (matching buyers and sellers to avoid spreads).

The total cost of the transition was £842,153 or 0.12% of the Fund. This is slightly above the estimate of £695,869 from our estimate dated 3 May 2012 (part of this increase is due to the increase in asset values from market movements), although it is well below our original estimate of 0.4-0.5% of the Fund.

Savings

The fact that the managers were able to make in-specie transfers rather than cash subscriptions saved large amounts of trading costs which would have been incurred. The table below summarises the costs saved by using in-specie compared to cash transfers. The numbers below do not include the savings from the in-specie transfers out of Fidelity and Capital which did not incur the cost of sales.

continued on next page

Manager	Saving
BlackRock	£1,746,841
<i>Trading</i>	£1,018,097
<i>UK Stamp Duty</i>	£728,744
L&G	£262,260
<i>Trading</i>	£258,456
<i>UK Stamp Duty</i>	£3,714
Total	£2,009,101

Source: Managers

End Position

The table below shows the asset allocation as at 31 May 2012. At the time of writing these figures were unaudited and are therefore subject to change.

Asset Class	CBRE		L&G		Manager BlackRock		Pantheon		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%
UK Equity			27.7	14.0	160.2	39.3			187.5	27.3
Overseas Equity			119.5	61.3	152.9	37.5			272.4	39.7
Index-linked Gilts			20.8	10.7	94.8	23.3			115.7	16.8
Corporate Bonds			27.4	14.0					27.4	4.0
Property	53.4	100.0							53.4	7.8
Private Equity							29.8	100.0	29.8	4.3
Total	53.4	100.0	195.0	100.0	407.9	100.0	29.8	100.0	686.6	100.0

Source: Northern Trust

Conclusion

The assets have been successfully transferred and accounted for. The costs were at the bottom of the anticipated range.

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