

Haringey Council

Report for:	Corporate Committee 22 nd January 2013	Item number	
Title:	Pension Fund: Asset Allocation advice		
Report authorised by :	<i>J. Parker 11/1/13.</i> Director of Corporate Resources		
Lead Officer:	Nicola Webb, Head of Finance – Treasury & Pensions nicola.webb@haringey.gov.uk 020 8489 3726		
Ward(s) affected: N/A	Report for Non Key Decision		

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

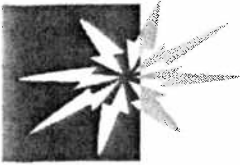
- 2.1 Not applicable.

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.

6. Comments of the Chief Financial Officer and financial implications

6.1 The strategic asset allocation was agreed after much debate and this report recommends a clear way forward to move the Fund to this by the end of the calendar year. Making an early move completely out of corporate bonds and up to the full allocation in emerging markets should be beneficial to the performance of the Fund.

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.

8. Equalities and Community Cohesion Comments

8.1 Not applicable.

9. Head of Procurement Comments

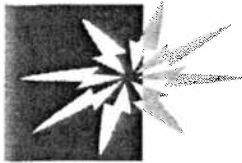
9.1 Not applicable.

10. Policy Implications

10.1 None.

11. Use of Appendices

11.1 Appendix 1: Aon Hewitt – Asset Allocation Process



Haringey Council

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Asset Allocation

- 13.1 The Pensions working group met with Aon Hewitt to discuss the way forward for the movement of the Fund's assets to the strategic benchmark. The working group, with the support of officers and the Independent Adviser, proposed that a timescale be set for the completion of the move to the strategic benchmark. It is proposed the moves be completed by the end of December 2013, with a default position of moving 25% of the assets each quarter. The decisions to be considered by the Committee on a quarterly basis would then be whether to speed up or slow down the moves to reflect what is happening in the market at the time.
- 13.2 Aon Hewitt have prepared a report setting out their advice in light of this and this is attached at Appendix 1. This shows that overall the Pension Fund's allocation to equities is currently broadly in line with the benchmark. However within the regional areas, the UK is overweight and North America and Emerging Markets are underweight. The property allocation is also underweight, but this is a long term asset class which cannot be added to quickly. Property, 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 for all asset classes except Corporate Bonds and Emerging Market equities. Corporate Bonds do not form part of the benchmark and so the current holding is a legacy from the previous strategy. Given the good performance seen during 2012 is unlikely to continue in 2013, Aon Hewitt advise selling all the Corporate Bonds. Emerging market equities are expected to perform well going forward and so it is recommended that the Fund moves straight to the benchmark position. These recommendations have been discussed with Aon Hewitt and are supported by officers and the Independent Adviser.

London Borough of Haringey
Date: 7 January 2013
Prepared for: Working Group
Prepared by: Colin Cartwright
Emily McGuire

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 a timetable and the process to consider advice from Aon Hewitt and take decisions on adjusting the asset allocation towards the strategic allocation. We also set out our advice on the first switch to be considered at the Committee meeting on 22 January.

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.

Asset Allocation The strategic asset allocation and current (30 November 2012) allocation are set out in the table below:

	Overall		LGIM		BlackRock		CBRE		Panthleon	
	Strategic %	Current %	Strategic %	Current %	Strategic %	Current %	Strategic %	Current %	Strategic %	Current %
Listed Equities	70.0	69.8	26.3	22.5	43.7	47.3				
UK	17.5	27.5	2.6	4.0	14.9	23.5				
North America	25.3	16.8	3.8	2.2	21.5	14.7				
Europe ex UK	8.6	11.3	4.3	5.5	4.3	5.8				
Asia Pacific ex Japan	4.0	3.7	2.0	1.8	2.0	1.9				
Japan	4.1	5.2	3.1	3.8	1.0	1.4				
Emerging markets	10.5	5.2	10.5	5.2						
Index-linked gilts	15.0	15.1	3.0	3.0	12.0	12.2				
Corporate bonds	0.0	3.8	0.0	3.8						
Property	10.0	6.5					10.0	6.5		
Private equity	5.0	4.2							5.0	4.2
Cash	0.0	0.6								

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 1 2013 %		Quarter 2 2013 %		Quarter 3 2013 %		Quarter 4 2013 %		
		Switch	Under/Overweight	Switch	Under/Overweight	Switch	Under/Overweight	Switch	Under/Overweight	
UK	+10.0	-2.5	+7.5	-2.5	+5.0	-2.5	+2.5	-2.5	-2.5	0.0
North America	-8.5	+2.1	-6.4	+2.1	-4.3	+2.1	-2.2	+2.2	+2.2	0.0
Europe ex UK	+2.7	-0.8	1.9	-0.7	+1.2	-0.6	+0.6	-0.6	-0.6	0.0
Asia Pacific ex Japan	-0.3	0.0	-0.3	+0.1	-0.2	0.1	-0.1	0.1	+0.1	0.0
Japan	+1.1	-0.3	+0.8	-0.3	+0.5	-0.3	+0.2	-0.3	-0.2	0.0
Emerging markets	-5.3	+1.3	-4.0	+1.4	-2.6	+1.3	-1.3	+1.3	+1.3	0.0
Index-linked gilts	+0.1	0.0	+0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Corporate Bonds	+3.8	-1.0	+2.8	-1.0	+1.8	-0.9	+0.9	-0.9	-0.9	0.0



MTAA Process

In order for the MTAA strategy to be effectively pursued there needs to be a clear process for the provision, and Committee consideration, of Aon Hewitt's MTAA advice.

It is our proposal is that before each Working Group/Committee meeting (we understand they will be scheduled for the same day), Aon Hewitt provide the most recent asset allocation, along with a proposal on whether market conditions are conducive to move towards the strategic benchmark faster or slower than is timetabled on the previous page. This advice will be summarised in a format like the table on the next page, with the Aon Hewitt MTAA being rated either Positive, Negative or Neutral, and the rationale for any decisions made. We will also provide an outlook for markets.

The process is to move in a time efficient manner, in our advice we will not be making a recommendation to move funds in order to increase an underweight or overweight position for an underlying asset class.

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:

- Sell corporate bonds to remove the overweight position this quarter.
- Buy emerging market equities to remove the underweight position this quarter.

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

	Strategic Allocation %	Current Allocation %	New Allocation %
Listed Equities	70.0	69.8	73.6
UK	17.5	27.5	25.0
North America	25.3	16.8	18.9
Europe ex UK	8.6	11.3	10.5
Asia Pacific ex Japan	4.0	3.7	3.7
Japan	4.1	5.2	4.9
Emerging markets	10.5	5.2	10.5
Index-linked gilts	15.0	15.1	15.1
Corporate bonds	0.0	3.8	0.0
Property	10.0	6.5	6.5
Private equity	5.0	4.2	4.2
Cash	0.0	0.6	0.6

Global Equities

Region	Current	Target	Delta	Weight	Impact	Current	Target	Delta
UK	17.5	27.5	+10.0	-2.5	Neutral	27.5	27.5	0.0
North America	25.3	16.8	-8.5	+2.1	Negative	16.8	16.8	0.0
Europe ex UK	8.6	11.3	+2.7	-0.8	Neutral	11.3	11.3	0.0
Asia Pacific ex Japan	4.0	3.7	-0.3	0.0	Neutral	3.7	3.7	0.0
Japan	4.1	5.2	+1.1	-0.3	Positive	5.2	5.2	0.0
Emerging Markets	10.5	5.2	-5.3	+1.3	Neutral	5.2	5.2	0.0
Index-linked gilts	15.0	15.1	+0.1	-	Negative	15.1	15.1	0.0
Corporate bonds	0.0	3.8	+3.8	-1.0	Negative	3.8	3.8	0.0

We have no strong views on UK equity, but are negative on US equities. We recommend making the timetabled move.

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.

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.

We currently have a neutral view on Asia Pacific equities, and are comfortable with the slight underweight with a zero first switch.

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.

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 are trading at historically low and even negative real yields. We would not recommend buying ILGs at the current time.

2012 corporate bond returns were very strong, but it looks unlikely to continue with valuations potentially at risk due to both spreads and gilt yields.



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