



London Borough of Haringey
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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 Committee with advice regarding the third 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 (17 May 2013) 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	75.7	26.3	26.5	43.7	49.2				
UK	17.5	23.2	2.6	2.5	14.9	20.7				
North America	25.3	22.7	3.8	2.3	21.5	20.4				
Europe ex UK	8.6	10.3	4.3	5.1	4.3	5.2				
Asia Pacific ex Japan	4.0	3.8	2.0	2.0	2.0	1.8				
Japan	4.1	5.6	3.1	4.6	1.0	1.0				
Emerging markets	10.5	10.1	10.5	10.1						
Index-linked gilts	15.0	14.1	3.0	2.7	12.0	11.4				
Property	10.0	6.2					10.0	6.2	5.0	4.0
Private equity	5.0	4.0								
Cash	0.0	0.0								
Total	100.0	100.0	29.3	29.3	55.7	60.5	10.0	6.2	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 3 2013 %	Quarter 4 2013 %		
		Switch	Under/ Overweight	Switch	Under/ Overweight
UK	+5.7	-2.9	2.8	-2.8	0.0
North America	-2.6	+1.3	-1.3	+1.3	0.0
Europe ex UK	+1.7	-0.9	+0.8	-0.8	0.0
Asia Pacific ex Japan	-0.2	+0.1	-0.1	+0.1	0.0
Japan	+1.5	-0.7	+0.8	-0.8	0.0
Emerging markets	-0.4	+0.2	-0.2	+0.2	0.0
Index-linked gilts	-0.9	0.4	-0.5	+0.5	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 75.7% overall the neutral weighting to UK equities would be 18.9%. The switched amounts were then calculated based on reaching this revised allocation over the next two switching dates.

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

	Strategic Allocation %	Current Allocation %	New Allocation %
Listed Equities	70.0	75.7	75.7
UK	17.5	23.2	18.9
North America	25.3	22.7	27.4
Europe ex UK	8.6	10.3	9.3
Asia Pacific ex Japan	4.0	3.8	4.3
Japan	4.1	5.6	4.4
Emerging markets	10.5	10.1	11.4
Index-linked gilts	15.0	14.1	14.1
Property	10.0	6.2	6.2
Private equity	5.0	4.0	4.0
Cash	0.0	0.0	0.0
Total	100.0	100.0	100.0

Rebalancing Timetable Adjusting for the Equity Overweight

	Current Under/Overweight Position to New Allocation	Quarter 3 2013 %		Quarter 4 2013 %	
		Switch	Under/ Overweight	Switch	Under/ Overweight
UK	+4.3	-2.2	2.1	-2.1	0.0
North America	-4.7	+2.4	-2.3	+2.3	0.0
Europe ex UK	+1.0	-0.5	+0.5	-0.5	0.0
Asia Pacific ex Japan	-0.5	+0.3	-0.2	+0.2	0.0
Japan	+1.2	-0.6	+0.6	-0.6	0.0
Emerging markets	-1.3	+0.6	-0.7	+0.7	0.0
Index-linked gilts	0.0	0.0	0.0	0.0	0.0

Advice Table

Asset Class	Strategic Allocation (%)	Revised Allocation (%)	Current Allocation (%)	Under/Overweight Position (%)	Adjusted Timetable Move (%)	Aon Hewitt view on asset class	Recommendation	Rationale
UK	17.5	18.9	23.2	+4.3	-2.2	Neutral	Sell 2.2%	We have no strong views on UK equity, but are negative on US equities. We recommend making the timetabled move.
North America	25.3	27.4	22.7	-4.7	+2.4	Negative	Buy 2.3% (0.1% less to make sure trade sums to zero)	We believe that the valuations in North America are the least attractive of all equity regions and therefore we would recommend the timetabled move to reduce the underweight.
Europe ex UK	8.6	9.3	10.3	+1.0	-0.5	Negative	Sell 1.0%	The macroeconomic outlook for Europe is not good, and there are lots of political and event risks. We recommend moving straight to the benchmark position as soon as possible.
Asia Pacific ex Japan	4.0	4.3	3.8	-0.5	+0.3	Neutral	Buy 0.2% (0.1% less to make sure trade sums to zero)	We currently have a neutral view on Asia Pacific equities, and recommend reducing the slight underweight.
Japan	4.1	4.4	5.6	+1.2	-0.6	Positive	Sell 0.6%	Despite strong performance in local currency terms we believe Japanese equities are still attractively priced. However, we recommend making the timetabled move to reduce the overweight over the next two quarters.
Emerging Markets	10.5	11.4	10.1	-1.3	+0.6	Positive	Buy 1.3%	Emerging markets have continued to underperform and are now looking attractive. We recommend moving straight to the benchmark position and purchasing emerging market equities.
Index-linked gilts	15.0	14.1	14.1	0.0	0.0	Negative	Maintain Weight	Negative real yields make index linked gilts very expensive, so we recommend maintaining the underweight.



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