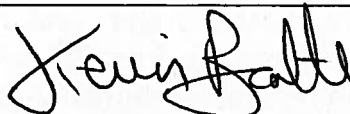




<b>Report for:</b>	Corporate Committee 28 <sup>th</sup> January 2014	<b>Item number</b>	
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<b>Title:</b>	Pension Fund Investment Strategy
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<b>Report authorised by :</b>	 Assistant Director – Finance (CFO)
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<b>Lead Officer:</b>	George Bruce, Head of Finance – Treasury & Pensions <a href="mailto:George.bruce@haringey.gov.uk">George.bruce@haringey.gov.uk</a> 020 8489 8621
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<b>Ward(s) affected:</b> N/A	<b>Report for Non Key Decision</b>
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**1. Describe the issue under consideration**

- 1.1 This report proposes changes to the Pension Fund's allocations to assets classes following discussions by the Pension Working Group and also recommends that increased property investment is made to rebalance to the strategic allocation.

**2. Cabinet Member Introduction**

- 2.1 Not applicable.

**3. Recommendations**

- 3.1 That the strategic asset allocation of the pension fund is amended in accordance with appendix 1, and
- 3.2 That additional cash is made available to CBRE to enable the property portfolio to be rebalanced to 10% of the total pension fund and that disposals are made from the Blackrock equity portfolio to finance the additional property investments.

**4. Other options considered**



4.1 None.

## **5. Background information**

5.1 Following the appointment of Mercer as Investment Consultant the Pension Working Group discussed Mercer's model portfolio. Training on potential new asset classes was provided to the Pension Working Group at its December meeting. Agreement was reached to include allocations to multi asset credit and private debt within the investment portfolio, funded by a reduction in equities. If the strategy is approved the Statement of Investment Principles will be updated.

5.2 The Pension Working Group agreed to recommend to the Corporate Committee that additional funds of approximately £35 million are invested in property to increase the allocation to 10% in line with the current and proposed investment strategy.

## **6. Comments of the Chief Finance Officer & financial implications**

6.1 A review of investment strategy is timely to reflect the results of the 2013 actuarial valuation. The proposed strategy targets a rate of return in excess of that assumed by the actuary and so if the strategy delivers the target it should enable the Fund to meet its long term funding aim. However given the high proportion proposed to be invested in equities, the returns may be volatile.

## **7. Head of Legal Services and Legal Implications**

7.1 The Council as administering authority for the Haringey Pension Fund has the power to invest fund monies as set out in Local Government Pension Scheme (Management and Investment Funds) Regulations 2009.

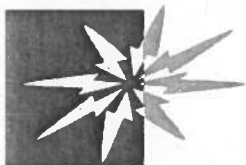
7.2 The report proposes a change in asset allocation with a reduction in equity to fund an increase in property investment. The revised strategy must comply with the Pension Fund's Statement of Investment Principles and in line with the Pension Fund's investment strategy.

## **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**

Appendix 1: Revised strategic allocations

Appendix 2: Report from Mercer on the revised strategic allocations (to follow).

Appendix 3: Draft minutes of the December 2013 Pension Working Group

## **12 Local Government (Access to Information) Act 1985**

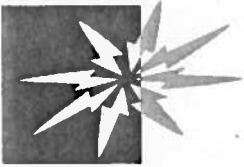
12.1 Not applicable.

## **13. Asset Allocation**

13.1 The strategic Asset allocation of the pension fund is the target level of exposure to equities, bonds, property etc. The asset allocation is the main determinant of the expected future return and also the predictability / variability of future returns. The current strategy is dominated by equities and thus has a high expected return but also a high level of volatility. Following training provided to the December meeting of the Pension Working Group on potential new asset classes, a revised strategic asset allocation is set out in appendix 1. This involves reducing the equity allocation by 10% and introducing 5% allocations to multi asset credit and private debt.

13.2 Also attached is a report from Mercer supporting the revised asset allocations (appendix 2 – to follow) and draft minutes of the December Pension Working Group (appendix 3). Although the Mercer report (section 7) discusses the benefits of switching from index linked bonds to a leveraged index-linked fund, there is no recommendation as further training is required. Implementation proposals (section 8) will also be held over to the March meeting.

13.3 If the Committee agrees to the revised strategy, Mercer will be invited to present an implementation plan to the March Committee meeting detailing the impact of the changes on individual manager mandates and proposing the process and costs involved in appointing new fund



managers. No action other than in respect to property (see below) will be taken until the implementation plan is agreed by the Committee.

- 13.3 Changes to the Investment Strategy require that the Statement of Investment Principles is updated.

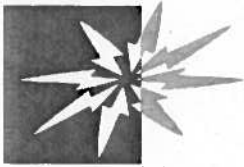
#### **14. Property Allocation**

- 13.1 The property portfolio including earmarked cash is currently valued at circa £56 million representing 6.0% of the overall fund. This compares with a strategic allocation of 10% agreed in 2011. Rebalancing the allocation to 10% will require an additional allocation of approximately £35 million.

- 13.2 The Pension Working Group at its December meeting agreed proposals from Mercer (minute's appendix 3) to rebalance the property allocation. Mercer presented their most recent market outlook in which the current view of UK commercial property had been upgraded from neutral to attractive. Commercial property has not enjoyed the same recovery as equities in recent years and Mercer recommend that the fundamentals to investing in property are more favourable than they have been since the financial crisis. In particular they note:

“Property is now viewed as Attractive. We have increased our rating for UK property as a result of strengthening occupier trends such as improving vacancy rates, improving interest for space from tenants and a reduction in incentive packages on new leases. Against a background of relatively attractive capital values (in many regions) and affordable rents compared to the peak of the previous cycle, we view the medium term prospects for UK property as being attractive”.

- 13.3 The fund's property Manager, CBRE, has developed a plan to invest the addition allocation both with existing and new funds over a period of 6 to 12 months. In line with the revised investment strategy, the additional investment will be funded from sales of equities from the BlackRock portfolio. Equities have enjoyed a strong year and the expected gains from maintaining an overweight position have moderated.



**Suggested Recommendations to Corporate Committee in respect of the Pension Fund Strategic Asset Allocation**

**Strategic Asset Allocation Proposal**

<b>Asset Class</b>	<b>Actual Dec-13</b>	<b>Strategy Current</b>	<b>Strategy Proposed</b>
<b>Equities</b>	75.9	70.0	60.0
<b>Index Linked</b>	13.8	15.0	15.0
<b>Property</b>	6.0	10.0	10.0
<b>Private equity</b>	4.0	5.0	5.0
<b>Multi asset credit</b>			5.0
<b>Private debt</b>			5.0
<b>Cash</b>	0.3		
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

