



Report for:	Pensions Committee 15 th December 2014	Item number	
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Title:	Current and Future Investment Policy
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Report authorised by :	Kevin Bartle, Assistant Director – Finance (CFO)
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Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions george.bruce@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 The report from Mercer outlines the current investment policy (asset allocation) and proposes that opportunities be monitored to diversify asset allocation from listed equities and increase the protection against the impact on the funding level of changes in interest and inflation rates.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

- 3.1 That Members receive training on leveraged index linked gilts prior to discussing their use to increase the level of inflation protection.

4. Other options considered

- 4.1 The Mercer's paper (appendix 1) quantifies the changes in expected return and risk arising from the proposed investment policy. Following the recommended training the Committee will be able to consider whether the impact is sufficiently favourable to justify the change in policy.

5. Background information



- 5.1 The Committee has appointed Mercer as their investment consultant. Mercer carried out a review of investment policy in 2013/14 following which the Corporate Committee agreed to reduce the equity allocation by 10% to 60% and awarded credit mandates to CQS and Allianz. The Corporate Committee also discussed increasing the inflation protection within the portfolio by switching the index linked gilts holdings into a leveraged fund that will enable both increased protection levels and a lower allocation of assets.
- 5.2 The Mercer report summarises the changes in investment policy implemented in 2014, including the expected impact on returns and risk, noting that part of the changes they recommended were deferred pending training on leveraged index linked gilts. The Corporate Committee received initial training but deferred any decision until a later date. In particular, the Committee sought confirmation that the leveraged portfolio will continue to deliver protection when interest rates increase.
- 5.3 The conclusions from the Mercer analysis is that the Committee should use improvements in funding levels to further diversify away from equities and to increase the levels of interest rate and inflation protection. They recommend that the optimum way to increase inflation protection is by using leveraged index linked bonds and future training on this is proposed.
- 5.4 The independent advisor has prepared a note (appendix 2) on the risk and gains from using leveraged index linked gilts and has concluded that in the present and foreseeable future (until the end of 2017) the use of leveraged index linked gilts would appear beneficial to the Fund.
- 5.5 The information contained in Appendix 2 is not for publication as it contains information classified as exempt under Schedule 12A of the Local Government Act in that it contains information relating to the business or financial affairs of any particular person (including the Authority holding that information).

6. Comments of the Chief Financial Officer and financial Implications

- 6.1 The review of investment strategy completed in January 2014 sought to optimise the anticipated returns and the volatility (risk) of these returns. This paper proposes to build on the current strategy by re-examining the benefits of using leveraged index linked gilts to offer a better balance of return and risk.

7. Assistant Director of Corporate Governance comments 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 greater attention is paid to interest and inflation risks and that training is provided on leveraged index linked gilts. Changes to investment policy must comply with the Pension Fund's Statement of Investment Principles and be in line with the Pension Fund's investment strategy

8. Comments from Independent Advisor

- 8.1 Mercer have proposed that the Fund utilise Leveraged Index Linked Gilts primarily to achieve a higher level of liability protection, greater funding level stability and to reduce risk. I have prepared a note which is also generally supportive of Leveraged Index Linked Gilts.
- 8.2 The concept of Leveraged Index Linked Gilts is however complex and needs to be properly understood before the Committee makes any decision to utilise this approach in any form. Therefore the recommendation in this report that Members receive training on leveraged index linked gilts is both sensible and appropriate

9. Equalities and Community Cohesion Comments

- 9.1 There are no equalities issues arising from this report.

10. Head of Procurement Comments

- 10.1 Not applicable

11. Policy Implications

- 11.1 None.

12. Use of Appendices

- 12.1 Appendix 1: Mercer report – Current & Future Investment Policy
Appendix 2: Independent Advisors report – Potential Investment in Leveraged Index Linked Gilts
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13. Local Government (Access to Information) Act 1985

13.1 Not applicable.