



Report to Pension Fund Consultative Group

Title: Investment Strategy Update

Date: 9 October 2009

Date Decision can Be implemented: 9 October 2009

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Electoral Divisions Affected: n/a

Portfolio Areas Affected: None

Summary

An investment strategy review was undertaken during autumn 2008 and agreed by the Pension Fund Committee in December 2008. Following an OJEC tender process, new Fund Managers were appointed and an asset transition exercise undertaken during September 2009. This report updates PFCG of changes made to the investment strategy.

Recommendation

The Committee is asked to note the report and comment as appropriate.

A. Main issues arising

Fund Value and Asset Allocation

1. Table 1 below shows a comparison between the previous asset allocation and the new Strategic Asset allocation in addition to a comparison with the actual asset allocation as at 30 June 2009. Due to Fund Manager returns, investment requirements, Fund cashflows and market conditions, variances will always occur between the strategic allocation and the actual allocation.
2. The Investment Strategy has decreased equity and bond exposures in favour of 'alternative' asset types where it is believed that more value can be generated. Within the Global Equity mandates, the investment strategy reduces US equity exposures but increases emerging market exposures.

TABLE 1			
Asset Class	Asset Allocation as at 30 June 2009 %	Previous Strategic Asset Allocation %	New Strategic Asset Allocation
Equities:			
UK	28.2	31.4	24.0

Global	30.2	35.3	36.0
Bonds	22.6	19.6	15.0
Property	5.7	7.8	10.0
Private Equity	2.8	2.0	8.0
Absolute Return Funds	7.0	3.9	7.0
Cash	3.5	0.0	0.0
	100.0	100.0	100.0

3. Table 2 outlines our expected risk and return estimates. Our return estimate is slightly higher than the previous allocation strategy but has a lower risk exposure. Our risk exposure benchmarks favourably with other LGPS funds.

Table 2	
Total Expected Return	4.1%
Total Expected Risk	13.4%
Total Expected Excess Return*	2.9%
Total Risk	13.2%

* Subject to fund management assumptions

4. The Fund's previous investment strategy performed reasonably well, peaking in the top quartile of LGPS fund performance (using WM statistics) but predominantly averaging in the 30-50 percentile range. Many different factors influence percentile outcomes so comparisons should be made cautiously however, overseas equities performed poorly and a refresh of overseas equity managers should provide improved returns in this area.
5. Table 3 shows our new Fund Manager list. We have a higher number of managers than previously as we have built into the new portfolio greater flexibility to enable the Fund to pre-empt and react to market conditions and manager performance more dynamically than previously and we will appoint a transition manager to assist us as far as is possible. Notwithstanding this, the Fund maintains a long term investment view. PFCG Members are advised that both Pantheon and Partners will take time to fund up to the stated levels due to "drip" funding agreements.

TABLE 3				
Fund Manager	Mandate	Asset type	Previous (actual) %	New %
Alliance Bernstein	Less constrained global equities	Global Equity	6	0
Aviva Investors	Property Fund of Funds	Property	7	10
Blackrock	Cash / inflation plus	Absolute	2	2
Blackstone	Hedge fund of funds	Absolute	5	5
Capital International	Global equities	Global Equity	9	0
Deutsche Bank	Global Equity – Neutral	Global Equity	0	7
Investec	Global Equity – Growth	Global Equity	0	7
Legal & General	Passive global equities and bonds	Bonds	32	28
Legal & General	Bonds	Bonds	18	0
Mirabaud	UK equities	UK Equity	10	8
Pantheon	Private Equity	Private Equity	3	5
Partners Group	Private Equity Fund of Funds	Private Equity	0	3
Royal London	Core Plus Bonds	Bonds	0	10
Schroder	Global Equity - Value	Global Equity	0	7

Standard Life	Less constrained UK equities	UK Equity	7	8
Pension Fund	Cash	--	1	0
Total			100	100

C. Resource Implications

None.

D. Legal Implications

None. All managers have signed an Investment Management Agreement.

E. Other implications / issues

Active Managers will be met on at least a quarterly basis. Passive managers will be met six monthly. The Pension Fund Committee aims to meet all active Managers at least once a year.

F. Feedback from consultation and Local Member Views

Not applicable.

G. Communication Issues

A performance update is reported six monthly to the Pension Fund Consultative Group and annually to the Pension Fund's employers. Members of the Pension Fund Committee are advised of quarterly performance prior to Committee meetings through the confidential Member newsletter.

H. Progress Monitoring

Updated governance and monitoring arrangements were agreed by the Pension Fund Committee in September 2009.

I. Background Papers

None.

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.