

Committee: General Purpose Committee

Date: 25 June 2015

Wards: All

Subject: Pension Fund Report

Lead officer: Caroline Holland

Lead member: Councillor Imran Uddin

Contact officer: Paul Dale

Recommendations:

- a. To approve the proposed changes to the current pension fund asset allocations
 - b. To agree the procurement of a pension fund investment adviser via the National LGPS Framework to support the investment manager selection process
 - c. Agree that the Director of Corporate Services can procure investment managers required for Diversified Growth Fund and Equities mandates via an independent OJEU procurement process or via the London CIV
 - d. Agree the re-procurement of the management of fixed income and property investments for value for money reasons using any one or more of the processes described in C above
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. Following a detailed review of the pension fund asset allocation by the pension fund advisory committee, the committee agreed the necessary asset allocation changes as

Asset Class	Current Strategic Asset Allocation %	Proposed Strategic Asset Allocation %
Equities	70	70
Fixed interest	25	20
Property	5	5
Equity like DGF	0	5
TOTAL	100	100

1.2. Equity investments split

Equity split	Strategic asset allocation %	Proposed Strategic Asset Allocation %
Passive equity	40	40
Active equity	60	60
Total	100	100

1.3. The current asset allocations were agreed by the pension fund advisory committee in 2004. However, since 2007, investment landscapes have changed significantly and have become globalised.

1.4. These geopolitical and economic changes have meant that companies are now more global in nature, thus the regional constraints under which the current investment managers manage funds restrict their ability to “go global” choosing “best in breed” stocks on a global basis and limits their ability to deliver the expected returns. The independent investment adviser and the current investment managers have all expressed the need to have mandates which do not limit their ability to invest on a global basis. The recommended mandate changes will allow investment managers to invest in their best ideas on a global basis.

2. DETAILS

2.1. The Independent Investment adviser has made it clear in various reports to PFAC and the Director of Corporate Services, at the regular quarterly meetings, that one major benefit in seeking new mandates is to simplify the management structure of funds under management and reduce the number of composite benchmarks currently used to measure the investment returns of the fund. Active global equity mandates will be unconstrained and flexible, and will provide the investment managers with more freedom in constructing more efficient investment portfolios against selected global benchmarks and defined outperformance targets. A diversified growth fund (DGF) asset allocation of 5% has been included in the new strategic asset allocation. Investing in a multi-asset mandate such as a DGF fund will help reduce volatility and provide access to managers’ best ideas across different asset classes.

2.2. Investment assumptions in the 2013 actuarial report

Future assumed returns at 2013		Risk adjusted discount rate weighting (rounded)
Equities	6.9% per annum	71%
Gilts (fixed interest)	3.3% per annum	25%
Cash	3.1% per annum	1%
Property	6.0% per annum	3%
Expense allowance	0.1% per annum	

2.3 The London Collective Investment Vehicle

Discussions have been held with the London CIV, the Head of Commercial Services and AllenbridgeEpic Investment Advisers Limited our Independent Investment Adviser. In addition, officers have had discussions with the actuarial arm of Barnet Waddingham LLP as to the impact of changes in the asset allocation of the fund on its valuation and contributions. Table 2.2 above indicates the investment return assumptions that the fund might be expected to achieve under current market conditions.

2.4 Re-procurement of the management of fixed income and property. Although fees for the fixed income portfolio were reviewed in the last three years, investment performance has been less than expected. It is general good procurement advice that contracts should be reviewed periodically to ensure that the Fund continues to receive value for money on fees, manager performance and service.

2.5 Procurement

The council's internal procurement resources can manage the procurement process itself, investment consultants or advisers will be required to assist with the evaluation of the technical investment aspects of the procurement. A mini tender process will be required whereby these consultants or advisers are appointed by the director of corporate services.

3. CONSULTATION UNDERTAKEN OR PROPOSED

3.1 Comments from the Independent Investment Adviser "Members of the Committee and officers are well briefed on the investment changes proposed which have been recommended in response to the geopolitical and economic changes from regional to global markets over recent years. These recommendations seek to both simplify the investment manager structure and its investment performance measurement whilst delivering positive investment returns and maintaining a strong overarching governance structure".

4. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 4.1. Depending on how the procurement of an investment consultant/adviser is undertaken, one off costs of approximately £95,306 might be incurred. These fees will be charged to the pension fund.
- 4.2. Investment management and transactional fees are all charged to the pension fund. The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the council and other employers in the fund.

5. LEGAL AND STATUTORY IMPLICATIONS

- 5.1. Contracts resulting from the proposal chosen will have legal implications for the Fund. Whichever procurement route is chosen and whether or not any of the procurements fall within the EU regulations or not. There is still a need for the Fund to demonstrate fairness and transparency. There will be a need for legal input in drafting and approving all contract terms and conditions. Where the framework or London CIV is used there will be need for legal input in the reviews of all access agreements required.

6. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 6.1. N/A

7. CRIME AND DISORDER IMPLICATIONS

- 7.1. N/A

8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 8.1. The use of the London CIV would enable a quicker, simpler process, but delays in their ability to take investments could impinge on our ability to the new allocations and fund managers in place by the end of the financial year.

9. APPENDICES –

There are no appendices to this report

10. BACKGROUND PAPERS

- 10.1. Pension Fund Advisory Committee (PFAC) March 2015 meeting papers