

PENSIONS INVESTMENT COMMITTEE

REPORT TITLE	Pension Fund Post Transition Report		
KEY DECISION	No	Item No: 3	
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	21 February 2013

1. PURPOSE

- 1.1 This report provides Members with an overview of the transition process which was completed in November 2012. A more detailed post trade report will be presented by Northern Trust, the Fund's Transition Managers, after this summary.

2. RECOMMENDATION

- 2.1 Members of the Pensions Investment Committee are recommended to note the report.

3. BACKGROUND

- 3.1 The Committee took the decision in 2011 to change the management of the Fund from being actively, to passively managed. In principal, this was due to the continuous unsatisfactory performances of the existing active investment managers and to reduce the Fund's exposure to the volatility of the market.
- 3.2 The Fund's advisors, Hymans Robertson, were appointed to carry out a search and selection process for the appointment of investment managers to passively manage the fixed interest, global equity and UK equity elements of the Pension Fund.
- 3.3 As a result of an OJEU notice and tender exercise, Members were presented with a shortlist of managers from which Blackrock and UBS were selected. Northern Trust, the Pension Fund's custodians, were then selected as transition managers to carry out and manage the whole transition process.
- 3.4 In summary, the process involved the termination of mandates with Alliance Bernstein, RCM and UBS Bonds and the transfer of circa £600m of assets to the management of Blackrock and UBS in equal proportions.

4. POST TRANSITION

- 4.1 The transition was completed on the 26th November 2012. The mandates of Alliance Bernstein, RCM, and UBS Bonds were terminated and the portfolios of Blackrock and UBS were established.

- 4.2 After transition, it came to light that the original signed agreement (IMA) with Blackrock included an allocation to the All Stocks Gilt Index Fund and the All Stocks Index Linked Gilt Index Fund, which was not in line with the proposed recommendation made by Hymans Robertson. The holdings had to be switched into the Over 15 Year Gilt Fund and the Over 5 Year Index Linked Gilt Fund to match the recommendation.
- 4.3 In order to achieve this in such a way as to minimise costs, BlackRock are using their internal transition team rather than placing full cash trades. A new IMA has been signed reflecting the new funds, along with an instruction letter to action the transfer. This is due to be completed by 15th February.
- 4.4 The estimated transaction cost for this at the outset was £ 17,741. However this is a worst case scenario and it is expected that the final cost will be less. This will be confirmed at the next meeting along with the position of the portfolio relative to the intended benchmark.
- 4.5 The structure of the Lewisham Pension is now markedly different to how it appeared at the end of the last financial year. Approximately 76% of the fund, circa £611m is now being managed by Blackrock and UBS in a mix of pooled and segregated funds. The remaining managers of Schroders, M&G, Harbourvest and Investec have maintained the management of their existing mandates.
- 4.6 The actual versus target mandate allocations have been set out in table 1 below. This was the position as at the 31 December 2012. The table shows that the fund allocation is still not quite in line with the target. This will be addressed when the rebalancing of the fund is undertaken as discussed at the last committee meeting.

Table 1: Target versus Actual Fund Allocation

Manager	Mandate	Asset Value 31/12/12 £m	Target Proportion of the Fund 31/12/12 %	Actual Proportion of the Fund 31/12/12 %
Alliance Bernstein	Global Equities	0	0	0
Harbourvest	Venture Capital	34.4	3	4.3
Investec	Commodities	35.6	5	4.5
M&G	UK Financing Fund	13.2*	3	1.7
RCM	Global Equities	0	0	0
Schroders Property	Property	69.7	10	8.7
UBS	Equity and Fixed Income	307.1	38	38.5
Blackrock	Equity and Fixed Income	304.9	38	38.3
Cash Held	All	32.1	3	4.0
Total Fund		797.0	100.0	100.0

5 FINANCIAL IMPLICATIONS

- 5.1 The actual costs of the transition were lower than anticipated. The overall cost of transition was £1.1m compared to an estimated cost of £1.6m. As the appointed Transition Managers, Northern Trust received a fixed fee of £100k. The full

breakdown of the total cost is included in the Northern Trust report which follows this summary.

6. LEGAL IMPLICATIONS

- 6.1 The investment of pension funds is a statutory function and is undertaken by the administering authority in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The aim of the investment is, acting prudently with regard to risk, to obtain the best return on the fund investments.
- 6.2 An administering authority must formulate a policy for the investment of its fund money with a view to the advisability of investing fund money in a wide variety of investments and to the suitability of particular investments and types of investments. The authority must consider the advice of its independent expert in taking any steps in relation to its investments.

7. ENVIRONMENTAL IMPLICATIONS

- 7.1 There are no specific environmental implications directly arising from this report.

8. HUMAN RESOURCES IMPLICATIONS

- 8.1 There are no specific human resources implications directly arising from this report.

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 There are no specific crime and disorder implications directly arising from this report.

10. EQUALITY IMPLICATIONS

- 10.1 There are no specific equalities implications directly arising from this report.

11. CONCLUSION

- 11.1 The transition of the Fund from active to passive concluded by 26th November 2012. Moving forward, this will translate to lower fund manager fees and returns which are expected to be broadly in line with the market return.
- 11.2 Northern Trust will be presenting a more detailed post trade report after this summary.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact Selwyn Thompson, Group Manager Budget Strategy on 020 8314 6932