

Investment Sub-Committee		
Report Title	Position Statement on the Pension Fund	
Key Decision	No	Item No. 3
Ward	All	
Contributors	Executive Director for Resources	
Class	Part 1	Date: 3 February 2010

1. Purpose of the Report

- 1.1. This report sets out a position statement on the Pension Fund as at 22 January 2010 and presents private and confidential notes from the independent adviser.

2. Recommendations

It is recommended that the Investment Sub Committee

- 2.1. notes the position of the Pension Fund as at 22 January 2010 (Table 1);
- 2.2. considers this report and the appendices as set out in the confidential agenda from the Independent Investment adviser; and
- 2.3. agrees to the proposal to rebalance the Pension Fund and delegates the execution and timing of this to the Executive Director for Resources (paragraph 3.12).

3. Value of Pension Fund

- 3.1. Table 1 set out below shows the value of the Fund as at 22 January 2010, compared to the last reported position (dated 16 October and reported to 28 October Investment Sub Committee). The table also shows the Fund's actual weighting against the target weighting.

TABLE 1 FUND POSITION AS AT 22 JANUARY 2010

Portfolio	Value now £m	Value as at 16/10/09 £m	Change £m	Weight now 22/1/10	Target weight	(Under) / Over Weight
Bernstein	174.81	173.09	1.72	26.62%	22.0%	4.62%
RCM	126.39	124.96	1.43	19.25%	22.0%	(2.75)%
UBS:						
-equity	141.95	137.00	4.95	21.62%	16.0%	5.62%
-bonds	120.35	118.17	2.18	18.33%	16.0%	2.33%
Schroder	53.77	51.27	2.50	8.19%	10.0%	(1.81)%
Fauchier	20.05	19.85	0.20	3.05%	3.0%	0.05%
HarbourVest	19.30	17.90	1.40	2.94%	3.0%	(0.06)%
M & G credit	-	-	-	0.00%	3.0%	(3.00)%
Commodities	-	-	-	0.00%	5.0%	(5.00)%
Total	656.62	642.24	14.38	100.00%	100.00%	0.00%

- 3.2. The Fund's value has increased by £14.38m since the previous meeting of the ISC, with gains in all asset classes.
- 3.3. At the last PIC it was noted that RCM had had a disappointing start to their mandate, which started on 1 January 2009. To the end of September they were 7.8% behind target since inception. Officers asked the independent investment adviser to review their decision making. He has carried out a review and confirms that the RCM investment process is still valid.

Market Developments

- 3.4. This item is intended to keep ISC members up to date with current developments in the investment market place and is included at Appendix 1. The note discusses sovereign risk (i.e. countries being unable to finance their debt and liabilities), the UK economy and other issues.

Metrics

- 3.5. A report from the Independent Investment Adviser with data on asset classes and market cycles is included at Appendix 2. These metrics are designed to inform Members about the investment environment and assist with management of the strategic asset allocation of the Fund as market events unfold.

Property

- 3.6. The last Investment Sub Committee decided to rebalance back to the strategic asset allocation for property (from 8 to 10%). Officers reviewed the Schroder

investment plan in November and agreed with them that a commitment would be made by the Fund to increase its allocation back up to 10%. However, as Schroders were holding a large cash stake at the time, we have held off fulfilling this commitment until Schroders require the cash. Officers and the independent investment adviser agree that this is the most beneficial way to honour the increase in the property allocation.

- 3.7. Since the last ISC Schroder have purchased £5.0m in an L&G fund, £0.5m in Ediston, £1.1m in Hansteen and £2.2m in Threadneedle. They plan to invest additional sums throughout 2010.

Commodities

- 3.8. The commodity search continues with 30 products being put forward at the pre-qualification questionnaire stage (which closed on 20 November). Officers and the independent investment adviser long listed these and have invited 8 managers to complete the more detailed Request for Proposal (RfP). The closing date for this is 27 January. It is encouraging that responses were received from all the major players in the market place and the following have been selected to progress:

Barclays	Neuberger Berman
Pictet	Bache Commodities
Credit Suisse	Investec
Aspect Capital	Schroder

- 3.9. During early February officers will short list these 8 managers and interview the successful candidates before recommending a candidate to the Pensions Investment Committee on 25 February. Members will then have an opportunity to receive a presentation from the chosen manager and examine their investment process in more detail before making a final decision on the award of the mandate.

Rebalancing

- 3.10. On the 16 June PIC received a report on the restructuring of the Fund (see the first column of Table 2). However, the assets have not yet been rebalanced to this revised strategic asset allocation. The commodities mandate may lie dormant before being funded when market conditions are right. Further the M&G financing fund is unlikely to call commitments in the near future. Officers have discussed how the new structure might be implemented (given the above two mandates will be unfunded in the short term) with the independent investment adviser and the following paragraphs set out our rebalancing proposals.
- 3.11. Table 2 shows the current position of the Fund and its asset allocation. Assuming the M&G and commodities mandates do not require immediate investment the strategic allocation has been pro-rata'd over the other asset allocations. The final column compares the actual asset allocation with the pro rata'd version.

TABLE 2 ACTUAL ASSET ALLOCATION

	Strategic Asset Allocation %	SAA without Commodities and M&G %	Actual asset allocation 26 Nov 09 %	Difference Overweight/ (underweight) %	
Bernstein	22	23.9	26.6	2.7	
RCM	22	23.9	19.3	(4.7)	
					(2.0)
Schroders	10	10.9	8.2	(2.7)	
UBS Passive	16	17.4	21.6	4.2	
Fauchier	3	3.3	3.1	(0.2)	
HarbourVest	3	3.3	2.9	(0.3)	
Commodities	5			-	
M&G	3			-	
UBS bonds	16	17.4	18.3	0.9	
	100	100.00	100.00	0.00	

3.12. The proposal the ISC is asked to agree is to fund the two mandates that are significantly underweight as follows:

RCM	-4.7%
Funded by transfers from:	
Bernstein	2.7%
UBS bonds	0.9%
UBS passive	1.1%
 Schroders	 -2.7%
UBS passive	2.7%

3.13. This would broadly leave assets aligned with the adjusted Strategic asset allocation (column 2 of Table 2). It should be noted that in line with paragraph 3.6 the rebalancing relating to Schroders will not occur immediately but will be driven by investment requirements at Schroders throughout 2010.

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