

| INVESTMENT SUB-COMMITTEE | | | |
|---------------------------------|---|---------------------|------------|
| REPORT TITLE | POSITION STATEMENT OF THE PENSION FUND | | |
| KEY DECISION | No | | Item No. 3 |
| WARD | All | | |
| CONTRIBUTORS | Executive Director for Resources | | |
| CLASS | Part 1 | Date: 23 March 2010 | |

1. Purpose of the Report

This report sets out a position statement on the Pension Fund as at the 8 March 2010 and presents private and confidential notes from the independent advisor.

2. Recommendations

It is recommended that the Investment Sub Committee :-

- 2.1. note the position of the Pension Fund as at the 8th March 2010 (Table 1);
- 2.2. consider this report and the report as set out in the confidential agenda from the Independent Investment adviser;
- 2.3. considers the increase in the value of the fund and the need to transfer resources between managers to achieve the strategic asset allocation; and
- 2.4. advise officers on what they consider to be appropriate training options are for both a new administration and a continuing administration for Investment Sub Committee and Pensions Investment Committee.

3. Value of Pension Fund

- 3.1. Table 1 set out below shows the value of the Fund as at 8th March 2010, compared to the last reported position (dated 22 January and reported on 3 February to Investment Sub Committee). The table also shows the Fund's actual weighting against the target weighting.

TABLE 1 FUND POSITION AS AT 8 MARCH 2010

| Portfolio | Type | Value now £m | Value at 22/01/10 £m | Change £m | Weight now 22/1/10 | Target weight | (Under) / Over Weight |
|---|------------------------|-----------------|----------------------------|--------------|--------------------------|------------------|-----------------------------|
| Bernstein | Global Equity | 189.35 | 174.81 | 14.54 | 27.2% | 22.0% | 5.2% |
| RCM | Global Equity | 138.90 | 126.39 | 12.51 | 19.95% | 22.0% | (2.05)% |
| UBS: | | | | | | | |
| -equity | Passive UK Equity | 145.68 | 141.95 | 3.73 | 20.93% | 16.0% | 4.93% |
| -bonds | Bonds | 121.46 | 120.35 | 1.11 | 17.45% | 16.0% | 1.45% |
| Schroder | Property | 60.01 | 53.77 | 6.24 | 8.62% | 10.0% | (1.38)% |
| Fauchier | Hedge Fund of Funds | 20.08 | 20.05 | 0.03 | 2.89% | 3.0% | (0.11)% |
| HarbourVest | Private Equity | 20.57 | 19.30 | 1.27 | 2.96% | 3.0% | (0.04)% |
| M & G credit | Credit | - | - | - | 0.00% | 3.0% | (3.00)% |
| Investec | Commodities | - | - | - | 0.00% | 5.0% | (5.00)% |
| Total | | 696.05 | 656.62 | 39.43 | 100.00% | 100.00% | 0.00% |
| Cash payments since last ISC | | | | 3.43 | | | |
| Fund increase net of cash payments | | | | 36 | | | |

- 3.2. The Fund's value has increased by £36m or 5.5% (net of cash payments to Schroders) since the previous valuation as at 22 January, with gains in all asset classes.
- 3.3. During the period since the 22nd January 2010 there were two cash payments to Schroders totalling £3.43m that have been invested in committed funds.

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 on the confidential agenda. 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 on the confidential agenda. These metrics are designed to inform Members about the investment environment and assist with management of the strategic asset allocation of the Fund in response to market events.

3.6. Questions & Answers

- 3.7. A new section has been added to the report detailing questions posed to the Independent Pension Fund Advisor on topical issues prior to the meeting. Councillors and Officers are actively encouraged to send questions to the Independent Pension Fund Advisor where it is felt clarification or investigation of

issues relevant to the pension fund is required. The questions detailed in this report were as a result of recent articles in the Financial Times.

Property

- 3.8. The value of the Schrodgers managed fund has increased in value by 5.2% (net of cash balance movements) since the last valuation presented to ISC. Schrodgers have explained the increase is in-line with their predictions of the overall direct property market although the geared funds have outperformed.
- 3.9. We last reported that Schrodgers were holding a large amount of cash in the fund so it was decided to defer further funding until cash was called by fund managers. The latest cash flow from Schrodgers is copied below showing the current cash balance and the estimated drawdown requirements based on forecasts from fund managers.

| | Q1'10 | Q2'10 | Q3'10 |
|--------------------|-------------------|-------------------|-------------------|
| Cash at Schrodgers | £436,252 | £0 | £0 |
| Cash Requirement | £3,600,000 | £3,200,000 | £1,020,000 |
| Cash | £4,036,252 | £3,200,000 | £1,020,000 |

Commodities

- 3.10. Investec were appointed as the commodities manager at the Pensions Investment Committee held on 25th February 2010. Discussions between officers and Investec are being conducted to complete the due diligence prior to funding the manager.

Rebalancing

- 3.11. The appointment of Investec as commodities manager necessitates funding being provided when the due diligence process has been completed. To minimise the number of instructions needed to achieve the strategic asset allocation it is proposed the fund be rebalanced at this time.
- 3.12. Table 2 sets out the current position of the Fund and the associated strategic asset allocation. It is not considered that the M&G mandate will require funding in the short term and consequently this element has been excluded from the analysis. The final column compares the actual asset allocation with the strategic allocation excluding M&G..

TABLE 2 ACTUAL ASSET ALLOCATION

| | Strategic Asset Allocation % | SAA without M&G % | Actual asset allocation 08 Mar 10 % | Difference Overweight/ (underweight) % |
|-------------|------------------------------|-------------------|-------------------------------------|--|
| Bernstein | 22 | 22.7 | 27.2 | 4.5 |
| RCM | 22 | 22.7 | 19.9 | (2.8) |
| Schrodgers | 10 | 10.3 | 8.6 | (1.7) |
| UBS Passive | 16 | 16.5 | 20.9 | 4.4 |
| Fauchier | 3 | 3.1 | 2.9 | (0.2) |
| HarbourVest | 3 | 3.1 | 2.9 | (0.2) |
| Commodities | 5 | 5.1 | 0 | (5.1) |
| M&G | 3 | | 0 | - |
| UBS bonds | 16 | 16.5 | 17.5 | 1.0 |
| | 100 | 100.00 | 100.00 | 0.00 |

- 3.13. The proposal the ISC is asked to agree is to transfer resources between managers to achieve the Strategic Asset Allocation. The necessary re-distribution of resources is as set out in the final column.. It should be noted that the rebalancing relating to Schroders will be driven by investment requirements at Schroders throughout 2010.

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