PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	**Rebalancing of asset allocation**		
KEY DECISION	No	**Item No:**	7
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date:**	26 June 2014

1. SUMMARY

1.1 This report provides members with a review of the asset allocation of the Pension Fund and compares the current asset allocation position to the strategic benchmark set in the Pension Fund's Statements of Investment Policy (SIP). The aim of this review is to set the context for a rebalancing policy. This report precedes a paper that will be presented at the next PIC. At the next PIC, members will be recommended to formally adopt a rebalancing policy that has been informed by the Fund's investment advisors.

2. RECOMMENDATION

2.1 The Committee is recommended:

(1) To note the current asset allocation of the Pension Fund, and

(2) To agree no rebalancing is required at this stage until a rebalancing policy has been agreed.

3. BACKGROUND

3.1 Rebalancing is the process of realigning the weightings of the funds assets to its strategic benchmarks. Benchmarks are set in order to ensure that the fund meets optimal return that is consistent with the prudent level of risk.

3.2 Rebalancing ensures that these benchmarks are maintained. The Statement of Investment Principles sets out the current benchmark position for each asset class and was originally agreed in 2012. It was agreed at the last Committee meeting that a rebalancing paper would be brought to this meeting..

3.3 As market values move over time, and as managers over and underperform, the proportions actually held in different asset classes will move away from the target allocations Rebalancing of the Fund is currently done on an periodic basis due to the costs involved and other complications associated with transfer of assets from one manager to another. Although, a review of target allocation is currently undertaken periodically, a formal process for rebalancing the portfolio in between reviews has not been agreed by the Committee.

4. TARGET ASSET ALLOCATION

4.1 The last review of the target asset allocation was undertaken during the 2012 transition of the Fund from active to passive management. The following table shows the current allocation targets as set out in the Statement of Investment Principles versus the actual allocations as at 31 May 2014.

Asset Class	**Manager**	**Value as at 31st May 14 £'000**	**Target Allocation**	**Actual Allocation as at 31st May 14**	**Direction of Travel (31st May 13)**
Private equity	Harbourvest	34,154	3.0 %	3.7%	↓
Passive Equity	Blackrock & UBS	584,191	60.0 %	63.0%	→
Passive Bonds:	Blackrock & UBS	175,853	18.0 %	18.9%	→
Property	Schroders	76,823	10.0 %	8.3%	→
UK Financing Fund	M&G	9,537	1.0 %	1.0%	↓
Commodities	Investec	34,679	5.0 %	3.7%	↓
Temporary Cash Holding		12,700	3.0 %	1.4%	↑
		927,937	**100.0 %**	**100.0 %**	

4.2 The table above shows that the greatest drift is in passive equity. The allocation to passive equity is 3% greater than the strategic benchmark. In 2013, PIC made the decision to invest some of the uninvested cash held into Blackrock and UBS according to their existing benchmarks and each Manager received £12.5m. This is a contributing factor to the increase in market value of these assets.

4.3 Property is 1.7% less than its strategic benchmark. All of the other asset classes have variances of less than 2%.

4.4 It is officers opinion that the costs involved in rebalancing, which will include transaction costs and advisory costs, will outweigh the potential benefits to be gained from the exercise, especially looking at the current performance of Commodities.

4.5 A rebalancing policy is being developed to ensure that a consistent approach to the reallocation of the assets is adopted.

4.6 In light of this, we would not recommend rebalancing at this stage.

5. REBALANCING POLICY

5.1 A rebalancing policy is important as it provides a framework for allocating investments and disinvestments, and insures against large deviation from the strategic benchmark. A rebalancing policy should be set in such a way as to avoid excessive rebalancing during volatile markets.

5.2 The framework of a policy will be discussed with our investment advisors Hymans Robertson. After Hymans have advised the Fund on the best policy, the PIC will be asked to approve this policy in the September meeting. This policy will also be added to the Statement of Investment Principles (SIP) which will be included in the 2013/14 annual report.

6. FINANCIAL IMPLICATIONS

6.1 The Fund’s approach to asset allocation links with its investment strategy. The investment strategy is set for the long-term. A significant proportion of the asset allocation is with growth assets because they are expected to achieve a higher rate of return. However this strategy carries with it a greater risk of volatility in the short and possibly medium-term. As a result, a rebalancing policy that involves a regular review may not be appropriate. And a rebalancing policy that includes highly sensitive tolerance levels may not take into account the long-term picture. Therefore it is important to get counsel from our investment advisors on the most appropriate rebalancing policy.

7. LEGAL IMPLICATIONS

7.1 Any rebalancing of the Fund must be in accordance with the Authority’s statement of investment principles (SIP) which govern decisions about the investment of Fund money, including amongst other things, the types of investment to be held, the balance between different types of investments, risk, (including the ways in which risks are to be measured and managed) and the expected return on investments. The rebalancing policy itself will be added to the SIP as set out in this Report.

7.3 Any movement of assets from other parts of the Fund or the use of cash to achieve a rebalancing of particular investment funds must also comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Regulations) which set out restrictions on types of investments by limiting the proportion of Fund money which may be invested in that type of investment.

7.4 The Committees must consider obtain and consider proper independent advice and act prudently in taking any steps in relation to the Fund’s investments. This, it is being recommended to do.

8. CRIME AND DISORDER IMPLICATIONS

8.1 There are no crime and disorder implications directly arising from this report.

9. EQUALITIES IMPLICATIONS

9.1 There are no equalities implications directly arising from this report.

10. ENVIRONMENTAL IMPLICATIONS

10.1 There are no environmental implications directly arising from this report.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact:

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