

Pension Fund Committee

Date: 26 February 2015

Agenda item 8

Committee:	Pension Fund Committee
Meeting Date:	26 February 2015
Lead Councillor/s:	Cllr Peter Bellfield
Local Councillor/s:	None
Director:	Geoff Dobson, Director of Resource Management 01473 264347
Assistant Director or Head of Service:	Geoff Dobson, Director of Resource Management 01473 264347
Author:	Paul Finbow, Corporate Finance Specialist Tel. 01473 265288

ASSET ALLOCATION UPDATE

BRIEF SUMMARY OF REPORT

- 1 This report updates the Committee on the progress made following the asset allocation review that was agreed at its meeting in November 2015, and seeks approval of the work still to be completed.

FOR DECISION BY THE COMMITTEE

The Committee is asked:

- a) To note the progress made on changes to the Suffolk Pension Fund's equity portfolio.
- b) To consider and decide on the recommendations made in the Appendix concerning the proposed changes to Bonds and the creation of a Swing mandate operated by Legal and General.

SOURCES OF FURTHER INFORMATION

None

MAIN BODY OF REPORT

Background

- 2 At its meeting on 27 November 2014, the Pension Fund Committee reviewed the asset allocation strategy for the Suffolk Pension Fund. The old target asset allocation is set out below.

HYMANS + ROBERTSON
The Spirit of Independence

Old target structure

Equities			Bonds			Alternatives (Diversification)		
	Manager	Target %		Manager	Target %		Manager	Target %
UK	BlokkRook Bernstein	8.0 7.0	Index-linked gilts	L&G	4.0	Property	Sothroder	10.0
Regional	L&G	18.0	Conventional gilts and corporates	L&G	14.0	Hedge funds	Pyrford Bluecrest Winton	8.0 2.0 2.0
Global	Newton	13.0	Cash	Internal	1.0	Infrastructure	KKR Partners	6.0
			-	-	-	Emerging market debt	L&G	2.0
						Distressed debt	M&G	2.0
						Timber	Brookfield	2.0
						Private	Pantheon Willshire	6.0
Total		46.0	Total		19.0	Total		58.0

- 3 The Committee agreed to some minor changes to the overall strategy with the new target allocation set out below. These changes are anticipated to increase the return of the Fund by about 0.5% per annum with only a marginal increase in risk.

New target structure

Equities		Bonds		Alternatives (Diversification)				
Manager	Target %	Manager	Target %	Manager	Target %			
UK	BlackRock (active)	8.0	Index-linked gilts	L&G (passive)	4.0	Property	Sohroder	10.0
	L&G (passive)	8.0						
Regional Split by 3rds	L&G	8.0	Corporate bonds	AN Other (active)	16.6	Hedge funds	Pyrford	8.0
							Bluecrest	2.0
Global	Newton	13.0				Winton	2.0	
Global	RAFI (L&G)	8.0	Cash	Internal	0.6	Infrastructure	KKR Partners	6.0
						Emerging market debt	L&G	2.0
						Distressed debt	M&G	2.0
						Timber	Brookfield	2.0
						Private	Pantheon	4.0
Total	46.0		Total	20.0		Total	36.0	

Update on Implementation

- 4 On 13 January 2015, the UK equity mandate managed by Alliance Bernstein was put on a “care and maintenance basis” with a termination date of 23 January 2015.
- 5 On this date all the assets held by Alliance Bernstein (£161m) were transferred to Legal and General (L&G) and were subsumed into the pooled funds, UK Equity (£147m) and Overseas Equity (£14m).
- 6 There was £0.860m in cash which was used as an initial investment into the fund’s L&G RAFI investment.
- 7 All the stocks transferred from Alliance Bernstein that form part of L&G’s tracked indices were effected at no cost, whilst non-index stocks incurred a levy to cover the estimated selling costs. The cost of transferring the assets was £21,016.
- 8 Over the following four weeks, further trading will be undertaken by L&G to fully create the RAFI mandate and ensure that the correct asset allocation weightings are held in the new passive UK equities and the regional overseas equity pooled funds. This is scheduled to be complete by 2 March 2015.

- 9 The advantages to completing this over a slightly longer period is to maximise the opportunity for crossing transactions and therefore significantly reducing the transition costs.

- 10 **Appendix 1**, Investment structure update, sets out the background work completed regarding the possible changes to the bond mandates, and further information regarding the creation of a swing mandate. The Committee is asked to consider these and decide on how these are progressed.