Committee: Pension Fund Advisory Committee
Date: 17 March 2014

Agenda item: 3
Wards: All

Subject: Asset Allocation

Lead officer: Caroline Holland Director of Corporate Services
Lead member: Councillor Imran Uddin
Forward Plan reference number: N/A
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Recommendations:

a). To agree the asset allocation proposed in section 1.4
b) To agree the immediate procurement of the DGF fund manager via an OJEU process and delegate to the Director of Corporate Services the decision whether to use the CIV for equities or undertake an independent OJEU procurement of these fund managers
c) To agree that the Director of Corporate Services should re-procure the management of fixed interest investments.
d) To note the approach to obtaining specialist advice to support the procurement outlined in para. 2.2

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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

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1.1 There was an extensive discussion at the last meeting of the Pension Fund Advisory panel on the next steps for the investment mandate for the fund. No firm conclusion was reached at that meeting. Officers undertook to hold further discussions.

1.2 Discussions have been held with the London CIV, the Head of Commercial Services and the Investment Adviser to the Panel (His briefing note is attached as an appendix to the report)

1.3 As was previously reported officers have had discussions with the actuarial arm of Barnett Waddingham as to the impact of changes in the asset allocation of the fund on its valuation and contributions required. The 70% (approx..) was the position at the last valuation

% of Fund assets allocated to equities	65%	70% (approx)	75%
Future service rate	15.0%	14.0%	13.5%
Deficit contribution rate	9.2%	7.0%	5.9%
Total rate	**24.2%**	**21.0%**	**19.4%**

This shows that a relatively small reduction in the % in equities (or DGF's of a similar characteristic) would lead to a significant increase in contributions required. An increase in the proportion in equities or similar would lead to a reduction in contribution, but at levels of equity investment of about 75% or greater, the actuary would apply an adjustment to allow for the increased risk of such an investment strategy lowering the saving.

1.4 The current and proposed asset allocations are:

Asset Class	Current	Proposed
Equities	**70%**	**70%**
Fixed Interest	**25%**	**20%**
Property	**5%**	**5%**
Equity Like DGF	**0%**	**5%**
Total	**100%**	**100%**
Equity Split		
Passive	**40%**	**40%**
Active	**60%**	**60%**

1.5 The proposal does not vary significantly from the current asset allocation but should produce a slightly higher funding level. The problem in recent years has not been the asset allocation but rather tightly drawn and restrictive investment mandates and benchmarks. It is proposed to set global equity benchmarks for these new equity mandates.

1.6 It is proposed that re-procurement should take place in the following tranches:

a) Dedicated Growth Funds
b) Active Equities
c) Passive Equities
d) Fixed Interest
e) Property (if required)

1.6.1 As the independent adviser makes clear in his report (attached as an appendix), a major aspect of seeking new mandates is to simplify the structure of funds under management and change the benchmarks with the intention of improving returns on the investments.

1.6.2 Once DGF and fixed interest have been re-procured the next stage will be fixed interest.

2. ADVICE OF THE HEAD OF COMMERCIAL SERVICES

2.1 Discussion is ongoing about which of the procurements detailed above would be caught fully by the EU rules and hence require a full tendering process in Europe, However in any event, the Council's constitution would require something essentially as rigorous for this scale and profile of contract.

2.2 Internal procurement resources can manage the procurement process itself, but investment consultants will be required to assist with the evaluation of technical aspects of the bids received. A tender process will be required whereby these consultants are appointed by the Director of Corporate services.

3 LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

3.1 An alternative to undertaking an independent formal procurement would be to use the CIV. It is anticipated that this will be in place and actively taking investments in the second half of the financial year. It will initially be accepting active and passive equity investment but not DGF. The timescale involved with using this for equities would not be significantly different from pursuing an independent procurement. (see appendix 2)

3.2 It would be sensible to review the emerging terms available from the CIV before committing to formal independent tenders. However, action should be taken now to procure the DGF via an OJEU process.

4. CONSULTATION UNDERTAKEN OR PROPOSED

4.1 N/A

5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

5.1 The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the council.

5.2 There will be a one off cost in procuring investment consultants to support the procurement process, estimated to be under £100k . This will be charged to the pension fund

5.3 The ongoing fees of a DGF, at c.7 basis points, are somewhat higher than the fees for managing equities. The rationale for making this type of investment is that it does not have the same cycle of returns as equities.

6. LEGAL AND STATUTORY IMPLICATIONS

6.1 Contracts resulting from the proposal chosen will have legal implications for the Fund. Whichever procurement route is followed and whether or not any of the procurements fall within the EU regulations, or not, there is still the need to demonstrate fairness and transparency. There will also be a need for Legal input in drafting or approving contract terms and conditions. If use of a framework is pursued, then there is likely to be an Access Agreement required, which will also necessitate Legal input.
Legal comments on framework and if EU requirements to follow.

7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

7.1 N/A

8. CRIME AND DISORDER IMPLICATIONS

8.1 N/A

9. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

9.1 The use of the CIV would enable a quicker, simpler process, but any delays in their ability to take investments could impinge on our ability to have the new allocations and fund managers in place by the end of the financial year.

10. APPENDICES

1 Report of Investment Adviser

2 Timeline for procurement under EU and using CIV

11. BACKGROUND PAPERS

11.1 Report to December meeting