

PENSION FUND COMMITTEE – 8 MARCH 2013

AMENDMENT TO THE STATEMENT OF INVESTMENT PRINCIPLES

Report by the Assistant Chief Executive and Chief Financial Officer

Introduction

1. The Pension Fund is required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to publish and keep under regular review a Statement of Investment Principles, which govern the investment of the Fund.
2. As part of the most recent review of the current Statement of Investment Principles, it has been identified two elements need to be amended. The first relates to the overall investment objectives for the Fund in light of the decision to switch an increased element of the Fund into a passive mandate. The second is to review the increase in the proportion of the Fund invested in a single insurance contract, which was initially agreed for a two year period which expires on 5 May 2013.

Proposed Amendments to the Statement of Investment Principles

3. As part of the Investment Objectives contained within the current Statement of Investment Principles, the Fund has been targeted to outperform its overall benchmark by 1.3% per annum over a rolling three year period. However, following changes over the last year in the individual manager mandates, this out performance target is no longer consistent with the individual manager targets.
4. The three main changes are
 - the decision to switch £100m into a global equity passive mandate;
 - the agreement of a 2% out-performance target with Wellington as opposed to the 3% target held by Alliance Bernstein; and
 - the increase from 0.4% to 0.6% in the out-performance target for the fixed income mandate with Legal and General.
5. By aggregating the out-performance targets of the individual managers, the expected level of out-performance is now calculated at 1.0%. It is recommended that the Statement of Investment Principles is amended to reflect this position.

6. Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, there are a number of limits on asset allocations to ensure appropriate diversification and manageable levels of risk. The Fund can increase these limits up to a maximum level prescribed in the regulations following appropriate consideration.
7. In 2011, the Fund agreed to increase the limit on the amount allocated to a single insurance contract from the normal 25% of the Fund to the 35% allowed as the maximum proportion. This increase was time limited to 2 years, and expires on 5 May 2013.
8. The change in 2011 was made as a consequence of the transitional arrangements in respect of the global equity mandates. Legal and General who manage the passive mandates for the Fund, as well as the fixed interest mandate, operate all their pooled arrangements through a single insurance contract. At the time the change was agreed, it was assumed that the Fund would revert back to the normal 25% limit once the funds held by Legal and General had been paid over to Wellington.
9. The latest monitoring figures show that the total funds held by Legal and General under the single Insurance contract amount to c£330m or 24.5% of the total Fund. This comprises the UK passive allocation, the overseas passive mandate, and the Core Plus element of the fixed income allocation.
10. Whilst the current allocation to a single insurance contract is below the 25% limit, to revert to this limit from May 2013 would restrict Legal and General's ability to switch money between to Core Plus Fund from the rest of the fixed income allocation. In particular, if Legal and General wished to go to the extreme of the amount they could allocate to the Core Plus Fund, the total of the Fund allocated to the single insurance contract would rise above 27%.
11. To ensure Legal and General retain the flexibility to switch money within their fixed income mandate, it is therefore recommended that the Committee extend the current increase in the limit on the proportion of the Fund allocated to a single insurance contract. This extension would be for a period of 18 months, to be reviewed following the next fundamental asset allocation review in 2014.
12. A revised Statement of Investment Principles is included in Annex 1 to this report, incorporating the changes recommended in this report.

RECOMMENDATION

13. **The Committee is RECOMMENDED to approve the revised Statement of Investment Principles as set down at Annex 1 to the report.**

SUE SCANE

Assistant Chief Executive and Chief Financial Officer

Background papers: None

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