

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT**FUND BENCHMARKS****Purpose of the Report**

1. To inform members of the new Fund benchmarks.

Information and Advice

2. The Fund's benchmark arrangements have been under consideration following the training session held at the meeting of this Sub-Committee on 21 June 2012. Proposals for change were first considered at the Pensions Working Party meeting on 30 October 2012 and then further at the Pensions Sub-Committee meeting on 13 December 2012 before being referred for approval by the Nottinghamshire Pension Fund Committee on 28 January 2013. Relevant extracts from the Working Party report are attached for information, particularly for members not involved in the earlier discussions.
3. The Pension Fund Committee resolved:
 - That a liability-based benchmark be set for the Fund
 - That a strategic benchmark be set for the Fund based on the mid-point of the strategic asset allocation ranges
 - That discussions be held with each manager regarding changes to their benchmarks within a wider review of strategic asset allocation as part of the triennial valuation process
 - That changes be made to quarterly performance reporting in conjunction with managers to focus more on longer time frames in order to more clearly link to the Fund's long-term objectives.
4. Initial discussions have been held with each of the Fund's main managers. As a result, the managers have been asked to include more on long term performance in their quarterly reporting and to focus their presentations on more strategic issues.
5. Each manager has also made suggestions for changes to their benchmarks and these will be considered further by Working Parties during 2013. The benchmark for the In-House portfolio has been amended to reflect the WM Local Authority average rather than the CAPS (Mellon) consensus on the basis that performance

reporting is now provided by WM Company and this is a more appropriate comparison for a local authority fund.

6. The liabilities of the Fund are index-linked and stretch out over several decades. The liability-based benchmark aims to represent the closest match to changes in the value of liabilities and is therefore composed of a long dated index-linked gilts index. It is important to note that this would not be used to formulate an investment strategy for the Fund (as the Fund is not approaching maturity and the funding level is not above 100%) but would give an indication of whether the agreed investment strategy is being successful in meeting the funding objective.
7. The investment strategy is decided following the outcome of the triennial valuation as the asset allocation most likely to produce the returns required. The Fund has agreed asset allocation ranges for each major asset class as shown below.

Equities	55% - 75%
Property	5% - 25%
Bonds	10% - 25%
Cash	0% - 10%

8. The strategic benchmark is constructed from the mid-point of each range (with the exception of cash which needs to be set at 2.5% in order to add up to 100%) with each asset class given an appropriate high level index. This strategic benchmark will enable an assessment of the whole Fund performance, in particular the impact of decisions to under or over-weight asset classes relative to the benchmark. A full presentation will be given to the next Pensions Sub-Committee on the Fund's performance against this benchmark in 2012/13.
9. The whole Fund benchmarks are set out below.

Liability Based Benchmark	100.0%	FTSE UK Gilts IL > 5 Yrs
Strategic Benchmark		
Equities (inc private equity)	65.0%	FTSE All World
Property	15.0%	IPD annual universe
Bonds	17.5%	FTSE UK Gilt All Stock
Cash	2.5%	LIBID 7 Day
	100.0%	

Statutory and Policy Implications

10. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That the report be noted.

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