

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT**OPERATION OF THE IN HOUSE TEAM AND PORTFOLIO****Purpose of the Report**

1. To inform members of the operations of the Pensions & Treasury Management Team and the In-House Portfolio.

Information and Advice

2. The Pensions & Treasury Management Team is responsible for the administration of the pension fund investments, the accounting for the whole fund and cash management for both the pension fund and the County Council. The Team comprises six members of staff:
 - Senior Accountant (Pensions & Treasury Management)
 - Investments Officer
 - 2 Accountants
 - Loans Officer
 - Finance Assistant
3. The main responsibilities of the team are specified in the service plan, relevant extracts of which were reported to the Nottinghamshire Pension Fund Committee on 18 April 2013. In relation to the pension fund, these responsibilities are:
 - Management of the In-house investments
 - Producing the statement of accounts and annual report
 - Quarterly valuation and reporting to Pensions Investment Sub-Committee
 - Advice and support to Committees
 - Co-ordinating IAS19/FRS17 reports for fund employers
 - Triennial Valuation of the Fund

Further detail is given in the following paragraphs.

4. About 40% of the Fund is invested in equities within the in-house portfolio. This currently equates to about £1.4 billion. In addition, sterling cash balances for the whole fund (currently around £100 million) are managed in-house. The In-house equities are managed on an 'enhanced consensus indexation' basis. This is best explained in reverse order.

Indexation	The portfolio is largely invested passively, aiming to track a combined benchmark of market indices
Consensus	The benchmark weightings are based on the WM local authority average asset allocations
Enhanced	The portfolio has a small outperformance target. This is achieved through taking small over and under-weight positions and through having some actively managed pooled funds (mainly in the smaller overseas markets).

- Individual direct shares are held in the UK, Europe and US markets. These portfolios are managed using BarraOne software which enables the monitoring of active risk compared to the benchmark. Trading decisions are based on information from BarraOne and brokers as well as general market and economic data. The aim in trading is to capture outperformance against the benchmark and reduce underperformance.
- Legal & General index tracker funds and some actively managed pooled funds are used to invest in 'small cap' companies and to access other overseas markets. The majority of the pooled funds have been held for a number of years. Quarterly reports are taken to the Pensions Investment Sub-Committee on the value and activity within the portfolio and the latest reported position is shown below for information.

	30 September 2013		30 June 2013		
	Portfolio		Portfolio		Average
	£000	%	£000	%	%
UK Equities	620,694	44.3%	595,601	44.0%	41.8%
Overseas Equities:	724,295	51.7%	712,324	52.7%	57.7%
North America	264,101	18.9%	268,326	19.8%	20.9%
Europe	169,564	12.1%	155,038	11.5%	14.4%
Japan	67,571	4.8%	67,397	5.0%	6.4%
Pacific Basin	94,874	6.8%	91,001	6.7%	5.9%
Emerging Markets	128,185	9.2%	130,562	9.7%	10.1%
Cash	55,312	4.0%	44,743	3.3%	0.5%
Total	1,400,301		1,352,668		

The average fund figures are from the WM Local Authority universe.

- The directly held shares are 'custodied' by the pension fund's custodian, State Street. These are held in electronic form, enabling transactions to be carried out quickly and efficiently. State Street also have custody of the assets within the Schroders and Kames portfolios.
- All the assets of the Fund are recorded within a specialist investment management system, Shareholder. The team uses this system to record all purchases, sales, capital expenditure, corporate actions and investment income. Each quarter, the records within Shareholder are reconciled to the various managers' records as well as the Custodian records where appropriate. This enables detailed holding and transaction reports to be given to the Pensions Investment Sub-Committee each quarter for the in-house portfolio and summary data to be provided on the other Fund portfolios. This system also provides the data to be submitted to the WM Company for performance reporting purposes and provides the basis for the net assets statement included within the annual accounts.

9. The statement of accounts is one of the key outputs of the team. It is a statutory requirement and is prepared on the basis of accounting guidance from CIPFA. There are tight deadlines for publication of the accounts and so the process is carefully managed. The pension fund annual report is a regulatory requirement and is produced by the team well ahead of the required deadline in order to be available for external audit and the Fund's annual meeting. The team also provides information on borrowing and cash investments to feed into the County Council accounts. A summary of the treasury management activity for 2012/13 is provided below.

County Council Treasury Management Activity 2012/13

Total outstanding borrowing	£319.8m
Total cash invested	£798.2m
Average invested balance	£51.2m
Interest earned	£0.6m
Interest rate	1.19%

10. The team is also responsible for producing reports for the Nottinghamshire Pension Fund Committee and its sub-committees as well as providing advice and information on investment matters to the committee members. A work programme is maintained to assist the management of committee agendas and the scheduling of committee business. When required, reports are produced for the Pensions Working Party.
11. The Fund relies on a number of external contracts to help manage and monitor the investments. These contracts are managed, and procured when necessary, by the in-house team. The contracts include:
- Investment management services
 - Custodian and performance monitoring services
 - Actuarial services
 - Independent advisor
 - Proxy voting services
 - Specialist investment systems
12. The team is also involved in monitoring parts of the banking services contract for both the pension fund and County Council. A tender is currently underway to procure a new provider and the team is heavily involved with this project.
13. The Fund currently has 212 active employers. A number of these employers (including all the local government employers, the colleges and the academies) are required to publish an accounting estimate of their pension liabilities in their accounts under either International Accounting Standard (IAS) 19 or its predecessor, Financial Reporting Standard (FRS) 17. The figures are calculated by the Fund's actuary on information provided by the employers and the Fund. The team co-ordinates the provision of this information and the issuing of the resulting reports.
14. IAS 19 and FRS 17 are used for the accounting estimates of pension liabilities but are not used to determine the funding level of the Fund or contributions required from employers. These result from the triennial actuarial valuation. This is a major exercise once every three

years and requires a wide range of information to be provided to the actuaries on Fund membership, cash flows and investment performance. This process is co-ordinated by the team together with the Pensions Admin office. The latest valuation, as at 31 March 2013, is currently being finalised and the initial results are reported to this Sub-Committee in a separate agenda item.

Statutory and Policy Implications

15. 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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For any enquiries about this report please contact: Simon Cunningham

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.