

Report



Meeting **PENSIONS INVESTMENT SUB-COMMITTEE**

date **6 FEBRUARY 2009** agenda item number

REPORT OF THE SERVICE DIRECTOR (FINANCE)

ASSET ALLOCATION

1. Purpose

1.1 To consider a small change in asset allocation from fixed interest to equities.

2. Background

2.1 There have been a few small adjustments to the Main Fund's asset allocation in the recent past. In 2005, when Aegon were appointed, £35 million of the fixed interest portfolio was moved to equities. £15 million was returned to fixed interest in 2007 and £20 million was added last quarter. Although all were relatively small switches, they were positive moves for the Fund as equities out-performed fixed interest between 2005 and 2007 and the reverse has been the case since 2007.

2.2 Asset allocation of the two funds together with the average for all funds measured by Mellon at 31 December 2008 was as follows:

	Ave. Fund %	Main Fund %	A. B. Fund %
Fixed Interest	42	20	21
Equities	50	58	67
Property including Overseas	3	16	9
Unquoted	2	2	0

Cash	3	4	3
Total	100	100	100

2.3 The average Fund's UK fixed interest proportion has increased in a year by over 10% as funds have moved away from equities (UK equities down 10%). The two Funds' proportion in equities have fallen less, although the Main Fund proportion reduced when half of an equity portfolio (3% of the Fund) was sold and is currently being invested in overseas' property. The proportion of equities in the Admitted Bodies' Fund is still comfortably within the 55% to 75% range permitted in our Funding Strategy Statement, but the Main Fund's proportion of equities is close to the lower limit.

2.4 The proportions in UK property were 15% in both Funds a year ago. The Admitted Bodies' investments have declined more than those in the Main Fund partly due to their gearing. In addition the Main Fund has increased its investment in overseas' property.

2.5 Whilst economic conditions world-wide are currently not conducive to equity performance, markets do tend to anticipate improvement before it happens. In addition the Fund has benefited from moving investment from equities to fixed interest recently. Although it is difficult to ever catch any turning point exactly, it is expected that equity markets should improve sometime in the next year. It is proposed therefore to switch £30 million from the Main Fund's fixed income portfolio to the In-house equity portfolio.

3. **Statutory and Policy Implications**

3.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, Crime and Disorder, Human Rights and those using the relevant services. No specific issues arise out of the proposals in this report.

4. Recommendation

The Pensions Committee be recommended:

4.1 That, for the Main Fund:

(a) £30 million be removed from the fixed income portfolio;
and

(b) £30 million be added to the in-house equity portfolio.

ALAN SUMBY
SERVICE DIRECTOR (FINANCE)

Background Papers available for inspection

None.