



meeting	PENSIONS INVESTMENT SUB COMMITTEE	
date	27 MARCH 2009	agenda item number

REPORT OF THE SERVICE DIRECTOR (FINANCE)

PENSIONS WORKING PARTY – 18 MARCH 2009

Purpose of the Report

1. To seek the Sub Committee's agreement to the recommendations made by the Pensions Working Party held on 18 March 2009.

Information and Advice

2. The Pensions Working Party met on 18 March 2009 to consider the following issues:-
 - a) Asset Allocation Strategy
 - b) Quarterly Property Valuations
 - c) Investment Adviser to the Pension Fund
 - d) Residential Land/Residential Property Investment
 - e) Keills Property Trust – Request for Additional Investment

Each area was considered by the Working Party members as shown below.

Asset Allocation Strategy

3. The current Asset Allocation Strategy was endorsed by the Sub Committee following a review carried out by the Fund's Actuary, Barnett Waddingham, in December 2008 and is as follows:-

Asset Class	Range
Equities	55% to 75%
Property	5% to 25%
Bonds	10% to 20%
Cash	0% to 10%

At the Pensions Investment Sub Committee on 6 February 2009, it was reported that due to market movements the percentage of the Main Fund held in bonds had increased to 20.3% and that there had been a similar increase in the Admitted Bodies to 21.1%. In accordance with the Fund's Statement of Investment Principles, this apparent breach in the range limits was referred to the Working Party for it to consider what action should be taken.

The Working Party concluded that given the continuing market volatility further market movements were likely and that the percentage valuation range allocated to bonds should be increased from 10% to 20% to 10% to 25%.

Quarterly Property Valuations

4. The Pensions Investment Sub Committee agreed to receive quarterly property valuations from Aberdeen Property Investors for a trial period of one year. This period has now expired and the Working Party considered whether to recommend the continued receipt of quarterly valuations. The main advantages of the more regular valuations are:-
 - a) the current market conditions are fast moving and in order to fully inform the trustees, it is important to present an accurate valuation position which quarterly valuations provide
 - b) regular valuations provide Aberdeen and trustees with better management information. Receiving a full analysis of the portfolio each quarter allows the identification of which properties are performing well or underperforming
 - c) market trends can be identified more readily
 - d) the property industry is increasingly undertaking quarterly valuations which allow a better measurement of the property performance.

The cost of continuing to receive quarterly valuations is £10,000 per annum. The annual valuation cost for the next two years is £25,000, a reduction of £5,000 from 2008/9. The Working Party concluded that quarterly valuations provided more timely information and supported their continued receipt.

Investment Adviser to the Pension Fund

5. Members may be aware that Mike Corlett has resigned as the Fund's Investment Adviser due to ill health. The Working Party considered a number of options for the appointment of a new Adviser and concluded that it would be appropriate to engage an Adviser to the Fund specifically on investment issues rather than extending the role to cover investments and wider governance and risk management issues.

Residential Land/Residential Property Investment

6. Representatives from Aberdeen Property Investors examined potential opportunities for the Fund in two specific areas:-
 - a) Residential Land – particularly the acquisition of such land to hold it in anticipation of an upturn in the housing market. Two options were proposed, either direct investment involving the purchase of suitable sites or indirect investment via a fund available to a number of investors
 - b) Residential Property – involving the purchase of residential property rather than land. However, Aberdeen advised that investing in residential property in the current economic climate was not recommended as they believed that the value of residential property would fall further in the coming year.

The Working Party concluded that Aberdeen Property Investors should be asked to identify potential opportunities in residential land investment for further consideration.

Keills (formerly Noble) Property Trust

7. The request for additional investment in the Keills Property Trust is the subject of a separate report on the Sub Committee's agenda.

Statutory and Policy Implications

8. 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 service. Where such implications are material, they have been described in the text of the report.

Recommendations

9. The Pensions Investment Sub Committee agrees the following Working Party recommendations:-
 - a) the Asset Allocation Range for bonds should be increased to 10% to 25% to reflect the continuing market volatility and that the Statement of Investment Principles be updated accordingly
 - b) quarterly property valuations should continue to be provided
 - c) an Investment Adviser be engaged to provide advice specifically investment issues.

- d) Aberdeen Property Investors should identify potential opportunities for direct investment in residential land.

ALAN SUMBY
SERVICE DIRECTOR (FINANCE)

Background Papers Available for Inspection