

Report



Meeting **PENSIONS INVESTMENT SUB-COMMITTEE**

date **8 OCTOBER 2009** agenda item number

REPORT OF THE SERVICE DIRECTOR (FINANCE)

FUNDS' CASH

1. Purpose

1.1 To determine how to invest cash accumulated from net pension contributions during 2009/10.

2. Background

2.1 The Main Fund is estimated to benefit from net cash inflow this year and will have a further £40 million for investment by the end of the year.

2.2 Since 2000 allocations have included: Hermes £65 million; In-house portfolio £30 million; Private Equity £37 million; Schrodgers £40 million, Aegon, Keills property and Standard Life European property each £20 million; Governance for Owners £14 million and Martin Currie Global Alpha £10 million. Around £50 million has also been added to the property portfolio in this time.

2.3 In addition around £65 million has been transferred from an equity portfolio to be invested in two European property funds.

2.4 The current investment management structure of the Admitted Bodies' Fund was determined by the Sub-Committee in June 2000. (Prior to this, the Fund was managed entirely by Schrodgers.) It was also agreed that

dividends, interest etc. earned by a portfolio should be re-invested in that portfolio, but the Sub-Committee should determine how cash resulting from Contributions, net of Pensions and Fund expenses, should be allocated for investment.

2.5 Since 2000 £2,500,000 has been invested in Schroders' Property Unit Trust and £3,000,000 in Aberdeen's Property Fund to bring the property allocation closer to that of the Main Fund. In addition £4,000,000 has been added to the Fixed Interest portfolio, £4,000,000 to Schroders' Equity portfolio, £1,500,000 to the In-house Equity portfolio, £3,000,000 invested in Martin Currie's Global Fund and £2,000,000 allocated to the Hermes UK Focus Fund although only £1,400,000 has so far actually been used.

2.6 The Admitted Bodies' Fund has also benefited from net cash inflow and should have a further £3 million for investment by the end of the year.

3. Asset Allocation

3.1 Asset allocation of the two funds together with the average for all funds (including corporate as well as local authority funds) measured by Mellon at 30 June 2009 was as follows:

	Ave. Fund %	Main Fund %	A. B. Fund %
UK Fixed Interest	41	14	15
Overseas Fixed Interest	1	5	5
UK Equities	24	32	31
Overseas' Equities	25	28	37
UK Property	3	12	7
Overseas' Property	0	4	0
Unquoted	2	2	0
Cash	4	3	5
Total	100	100	100

3.2 The average Fund's UK proportions have moved very little in a year with 1% reductions in both UK and overseas' equities and 1% increases in fixed interest and cash. The Main Fund's proportion in equities has fallen similar to the average, whilst the AB Fund's proportion has risen. Cash

has also declined and fixed interest increased. Proportions in equity of 60% for the Main Fund and 68% in the Admitted Bodies' Fund are still comfortably within the 55% to 75% range permitted in our Funding Strategy Statement.

3.3 The proportions in UK property were 15% in both Funds two year ago. The Admitted Bodies' investments have fared much worse partly due to their gearing.

3.4 In February this Sub-Committee resolved to move £30 million from fixed interest to equities in the expectation of improvement in conditions for growth assets. It is proposed that this trend be continued by further allocations to equities and property.

4. Main Fund

4.1 UK commercial property has had a torrid time in the last 2 years, but there are indications that the sector may be near to positive performance again.

4.2 It is proposed to allocate £30 million to this sector, including the possibility of a portfolio of building land. (In existing cash balances there is an additional £10 million reserved for the £50 million allocated to the Aberdeen European property fund and still unspent.) Together, these two allocations will add around 2% to the property sector bringing it to 18% which is comfortably within the 5% to 25% range permitted in our Funding Strategy Statement

4.3 Schroders out-performed their benchmark again last year, this time by 0.7%. It is proposed that the Sub-Committee consider allocating another £10 million to their portfolio.

5. Admitted Bodies' Fund

5.1 This Fund has much less in property than the Main Fund, but, in view of the structure and performance of its assets and the possibility of merging the two Funds, it may be advisable to delay adding to this sector.

5.2 It is proposed that the Sub-Committee consider allocating £3 million to the Schroders' equity portfolio.

6. Recommendation

That the Sub-Committee considers the following recommendations to Pensions Committee:

6.1 That, for the Main Fund:

(a) £30 million be added to the Aberdeen UK property portfolio; and

(b) £10 million be added to the Schroders' equity portfolio.

6.2 That, for the Admitted Bodies' Fund £3 million be added to Schroders' equity portfolio.

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Background Papers available for inspection

None.