



Pensions Committee

10 December 2014

Report title	SIAB Review	
Originating service	Pension Services	
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Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the statement of investment beliefs set out in Appendix A.
2. Approve a decrease in the allocation to UK equities to 8% from 10% of assets and a corresponding increase in the allocation to global equities to 10% from 8%.
3. Approve a move to fixed weight allocations within the overseas equities allocation (which remains at 30%) with four 7.5% allocations to each of North America, Europe ex UK, Pacific / Japan (3.75% each) and emerging markets, as recommended by Hymans Robertson at September's Investment Advisory Sub- Committee.

Recommendations for noting:

The Committee is asked to note:

1. The proposed timing for the planned changes to the listed equities portfolio and the proposed creation of an Investment Strategy Panel. A report on progress will be made to the Committee's next meeting.

1.0 Purpose

- 1.1 To review a statement of investment beliefs and plans for the Fund's listed equities portfolio.

2.0 Background

- 2.1 At September's Pensions Committee, it was agreed that the Fund should adopt a statement of investment beliefs. A detailed review of the Fund's listed equities management arrangements was made at September's Investment Advisory Sub-Committee as part of the annual SIAB review. This included a presentation by Hymans Robertson. It was proposed then that plans for changes in listed equities management arrangements should be made to December's Pensions Committee.

3.0 Statement of investment beliefs

- 3.1 It is important that the Pensions Committee has conviction in the investment philosophy adopted by the Fund and an effective way of so doing is to adopt a statement of investment beliefs (as is being done increasingly by other large pension funds).
- 3.2 Following September's Pensions Committee, a draft statement of investment beliefs was considered at a session facilitated by Hymans Robertson at the end of the trustee training course held in late October. Attached in Appendix A is a revised draft, which incorporates changes proposed at the session. The statement is divided into four sections covering financial markets, investment strategy, organisational aspects and responsible investment.
- 3.3 It is recommended that the Committee adopts the statement of investment beliefs as set out in Appendix A. Looking ahead, this statement will be reviewed annually in conjunction with the Fund's statement of investment principles.

Plans for the Fund's listed equities portfolio

4.0 Portfolio structure

- 4.1 It is not proposed that the Fund's overall allocation to listed equities (at 48% of total assets) changes but it is recommended that within the overall allocation, changes are made to improve portfolio diversification, simplify management arrangements and reduce management fees and costs. There will be more focus on portfolio construction and the setting of portfolio objectives.
- 4.2 Within the listed equities allocation, it is recommended that the Fund further reduces its allocation to UK equities – from 10% to 8% of total assets – and increases its allocation to global equities to 10% from 8%. The reason for the change is to improve diversification – away from the concentrated UK stock market (dominated by a small number of stocks and sectors) into global markets, where the opportunity set is much broader.

4.3 It is further recommended that the Fund's allocation to overseas equities is reshaped so that a fixed weight approach is adopted, as proposed by Hymans Robertson. The 30% allocation (unchanged) would be divided into four equal allocations of 7.5% each in the key investment regions of North America, Europe (ex UK), Japan / the Pacific (with the 7.5% allocation here to be equally divided so that they each have 3.75%), and emerging markets. The fixed weight approach is designed to reduce the portfolio concentration issues associated with a conventional market capitalisation approach. Periodic rebalancing – trimming outperforming regions back to target and increasing exposure to target in underperforming ones – should add value to the Fund over time.

5.0 Management arrangements

5.1 In its submission made in July to the Government consultation on LGPS reform, the Fund made the case that both active and passive investment options should be considered in setting up and running portfolios. The Fund also made the case for internal investment management arrangements for which there is evidence that they deliver good investment performance cost effectively.

5.2 In future, it is recommended that a very targeted approach is taken to active management in listed equities so that it is focussed on global equities (where the opportunity set is very broad) and in emerging markets (which are relatively inefficient, presenting opportunities to active managers).

5.3 So far as global equities specifically are concerned, the Fund has recently recruited an experienced investment manager who is building up an internal active global equities management capability, complementing the successful internal passive equities management function .

5.4 In order to provide further assurance to the Pensions Committee and robust governance appropriate to the changes proposed, it is planned that an Investment Strategy Panel (ISP) will be set up in 2015. This will replace the current Investment Management Team meetings, although Portfolio Managers' meetings will continue to be held at least monthly. The ISP's membership will comprise the Director of Pensions, the Assistant Director Investments, representation from Hymans Robertson (the Fund's Investment Consultant) and at least two other independent investment advisers. It is planned that the ISP will meet quarterly and provide at least one report annually to the Pensions Committee on its activities and to enhance assurance.

5.5 A presentation is being made at the trustee training session prior to the commencement of the Pensions Committee to go through the plans for the listed equities portfolio in detail.

6.0 Timing and next steps

6.1 It is proposed that the reshaping of the regional overseas equities mandates is carried out on a phased basis in 2015.

6.2 The infrastructure for the new active global equities capability is being put in place. A model portfolio will very shortly be created and will be modelled and trialled prior to being set up during the second quarter of 2015.

6.3 It is planned that the ISP will be set up in 2015, to include the recruitment of external investment advisers, with its first meeting expected to take place in April, prior to the setting up of the new active equities portfolio.

6.4 The statement of investment principles and SIAB allocations will be updated to coincide with the planned changes.

7.0 Financial implications

7.1 The financial implications are set out in the presentation to the Pensions Committee prior to the meeting.

8.0 Legal implications

8.1 This report contains no direct legal implications.

9.0 Equalities implications

9.1 This report contains no direct equalities implications.

10.0 Environmental implications

10.1 This report contains no direct environmental implications.

11.0 Human resources implications

11.1 This report contains no direct human resources implications.

12.0 Corporate landlord implications

12.1 This report contains no direct corporate landlord implications.

13.0 Schedule of background papers

13.1 There were no preceding background papers.

14.0 Appendices

14.1 Appendix A : Statement of investment beliefs.