

AGENDA MANAGEMENT SHEET

Name of Committee Pension Fund Investment Board

Date of Committee 18 May 2007

Report Title Outcome of the Pension Fund Restructure and Transition Processes

Summary Report setting out the outcome of the restructuring and transitional processes following the award of three new mandates (two property and one hedge fund) for the investment of the Pension Fund.

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Would the recommended decision be contrary to the Budget and Policy Framework? No.

Background papers None

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s)
- Other Elected Members Cllr Davies - Chairman of the Pension Fund Investment Board
- Cabinet Member
- Chief Executive
- Legal Tony Maione
- Finance David Clarke, Strategic Director, Resources – reporting officer
- Other Chief Officers

- District Councils
- Health Authority
- Police
- Other Bodies/Individuals

FINAL DECISION YES

SUGGESTED NEXT STEPS:

Details to be specified

- Further consideration by this Committee
- To Council
- To Cabinet
- To an O & S Committee
- To an Area Committee
- Further Consultation

Pension Fund Investment Board – 18 May 2007

**Local Government Pension Scheme
Outcome of the Pension Fund Restructure and
Transition Processes**

Report of the Strategic Director of Resources

Recommendation

That the Report be noted.

1 Introduction

- 1.1 On 12 and 13 February 2007, the Investment Board awarded three new mandates in respect of property and hedge funds. BlackRock Investment Management had already been awarded the contract to manage the transition and commenced work on the process at the end of March 2007.
- 1.2 This report will detail the complex processes that were completed in order to achieve a smooth transition at minimal cost to the fund.

2 Scope and Structure of the Reorganisation

- 2.1 The transition process involved the restructuring of assets to the value of approximately £134 million. The restructure involved reducing the funding for five managers and appointing three new managers, a Hedge Fund manager (Blackstone) and two Property Fund managers (Threadneedle and Schroders).
- 2.2 As part of the rebalancing exercise UBS also received additional funding for their fixed income mandate. The Pension Fund provided additional funding of £19.7 million (in house cash).

3 Timetable of Events

3.1 Events transpired according to the following:

20th March: UBS Emerging Market Fund redeemed for cash.

20th March: Assets transferred into the transition account from MFS, Threadneedle, UBS and State Street.

21st March: ABN AMRO confirms availability and dealing commences.

21st March: BGI redeems in specie holding in the BGI European Pooled Fund.

26th March: £24.5 million cash transferred to Threadneedle.

28th March: Assets confirmed as available in the transition account from the BGI European Pooled Fund in specie and dealing commences.

28th March: £26 million cash transferred to UBS.

30th March: £49 million cash transferred to Blackstone.

30th March: £2.1 million cash transferred to Schroders.

10th April: £4.5 million cash transferred to Schroders.

3.2 Schroders are to be funded in tranches over the next 3 months. Until they are funded BlackRock will maintain the futures and currency hedge back to the previous managers mandate as agreed. Schroders currently need to be funded with a further £17.9 million.

3.3 Post Schroders final funding BlackRock will then have approximately £2m to be distributed pro rata amongst all the managers once the futures margin has been returned to the account.

4 Performance Measurement

4.1 The implementation shortfall outcome is equal to 0.14% of total assets in transition, representing a shortfall of £185,139. Within BlackRock's pre-trade analysis, a mean implementation shortfall of 0.09% with a potential opportunity cost around that mean of +/- 0.12% was estimated. The shortfall result is within the estimated range and represents a very good outcome for the Fund.

4.2 The total implementation shortfall of £185,139 can be broken down into direct and indirect costs as follows:

- 4.3 Direct costs were £35,161 which was slightly higher than the pre-trade estimate of £30,643. This is because a larger than expected number of the hedging futures were closed during the transition period and incurred commission costs.
- 4.4 Indirect costs were also higher than the pre-trade estimate. Within indirect costs, market impact contributed £26,407 or 0.02% which was lower than our pre-trade estimate of 0.06% due to the sensitive dealing of securities.
- 4.5 Opportunity costs accounted for the difference and represented £211,360 or 0.16%.
- 4.6 The transition fee was a flat fee of £30,000. However, after deducting commissions paid of £22,278, this equates to an invoiced fee of £7,722.

5 Recommendation

- 5.1 That the report be noted.

DAVID CLARKE
Strategic Director of Resources

Shire Hall
Warwick
May 2007