

## **Pension Fund Investment Board 12 November 2012**

### **Absolute Return Managers**

#### **Recommendation**

That the Board approve the current position with regard to the ongoing fund manager appointment process.

#### **1. Introduction**

- 1.1 This paper considers the implementation of the new investment arrangements following the appointment of Barings to manage a multi-asset absolute return mandate, and JP Morgan to manage an absolute return bond mandate.

#### **2. Asset Allocation**

- 2.1 At the board meeting on 21 May 2012, the Pension Fund Investment Board decided that the 5% allocation to the new Multi-Asset Absolute Return mandate should be funded from equities and that the 5% allocation to the new Absolute Return Bond mandate should be funded equally from equities and government bonds (gilts).
- 2.2 In Hymans Robertson's subsequent review of investment strategy, it was recommended that the relative allocations between UK and overseas equities should move from a ratio of 50:50 towards 40:60, reflecting the very concentrated nature (in company terms) of the UK equity market and the benefits of a better diversified global equity portfolio. The implication of this change on the fund asset allocation as a whole is shown in **Appendix A**.
- 2.3 It is intended that the full private equity allocation of 5% will be built up at the expense of UK equities though this may take a few years until the programme is fully established. In the meantime, the UK equity allocation will tend to be overweight to its final target.

#### **3. Funding the New Fund Managers**

##### **JP Morgan – Strategic Bond Fund (Absolute Return Bonds)**

- 3.1 The bond mandate will be funded 50% from fixed interest gilts and 50% funded from UK Equities. The gilts will be sold from the L&G passive bond mandate. This is because the Fund's other bond manager, BlackRock, does not hold a sufficient amount of gilts in their portfolio in order to provide the amount needed. The remaining 50% of assets required to fund the mandate

comes from the sale of equities from the State Street UK equity passive mandate.

### **Barings – Dynamic Asset Allocation Fund (Multi Asset Absolute Return)**

- 3.2 The multi asset mandate will be 100% funded from UK Equities. It is propose that these funds are sourced from the State Street UK Equity passive mandate.
- 3.3 Threadneedle's UK Equity mandate will remain unchanged for the present. The managers long perm performance on this mandate has been reasonably good and it is likely to be more cost effective to raise assets from a passive manager than make substantial withdrawals from the active mandate.

### **Transition manager**

- 3.4 The Fund's transition manager, Blackrock, will be asked to manage the necessary transfers of assets.

### **Manager Allocations**

- 3.5 **Appendix B** shows the impact of incorporating the changes above to the State Street and L&G bond weightings, and the establishment of the absolute return bond and multi-asset absolute return allocations.

## **4. Summary and Conclusions**

- 4.1 The State Street UK equity allocation will be reduced by 7.5% in order to fund the new mandates. This will reduce the UK/overseas equity targets from 50:50 to approximately 42.5:57.5 to provide a better diversified portfolio of equity investments.
- 4.2 The L&G bond allocation will be reduced by 2.5% to partially fund the new Absolute Return Bond mandate with JP Morgan.

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## Appendix A

	Current Actual (%)	Current Target (%)	New Target (%)
<b>Equities</b>	<b>64.8</b>	<b>60.0</b>	<b>52.5</b>
UK	34.3	30.0	22.5
Overseas Equities	30.5	30.0	30.0
<b>Private Equity</b>	<b>0.5</b>	<b>5.0</b>	<b>5.0</b>
<b>Property</b>	<b>10.5</b>	<b>10.0</b>	<b>10.0</b>
<b>Hedge Funds</b>	<b>4.8</b>	<b>5.0</b>	<b>5.0</b>
<b>Multi-Asset Absolute Return</b>	<b>0.0</b>	<b>0.0</b>	<b>5.0</b>
<b>Bonds</b>	<b>19.4</b>	<b>20.0</b>	<b>22.5</b>
Gilts	4.1	5.0	2.5
Index-Linked Gilts	5.4	5.0	5.0
Corporate Bonds	9.9	10.0	10.0
Absolute Return	0.0	0.0	5.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Appendix B

Manager and Mandate	Current target allocation (%)	Proposed target allocation (%)
L&G (Global equity – passive)	12.0	12.0
<b>L&amp;G (Bonds – passive)</b>	<b>13.0</b>	<b>10.5</b>
BlackRock (Global Equity – passive)	10.5	10.5
BlackRock (Bonds – passive)	7.0	7.0
Threadneedle (UK Equity – active)	13.5	13.5
<b>State Street (UK Equity – passive)</b>	<b>11.0</b>	<b>3.5</b>
MFS (Global Equity – active)	13.0	13.0
Schroders (Property)	5.0	5.0
Threadneedle (Property)	5.0	5.0
Harbourvest (Private Equity)	5.0	5.0
Blackstone (Hedge Fund)	5.0	5.0
<b>JP Morgan (Absolute Return Bonds)</b>	<b>0.0</b>	<b>5.0</b>
<b>Barings (Multi Asset Absolute Return)</b>	<b>0.0</b>	<b>5.0</b>
Total	100.0	100.0