

WILTSHIRE PENSION FUND COMMITTEE
6 September 2006

UPDATE ON IMPLEMENTATION OF NEW INVESTMENT STRATEGY

Purpose of the Report

1. The purpose of this report is to update Members on the implementation of the Fund's revised Investment Strategy.

Background

2. On 14 July 2006, this Committee resolved to:
 - a) *To approve the move to 60% Overseas and 40% UK within the Fund's equity allocation.*
 - b) *To confirm the increase in the Property allocation of 3%, to be managed by ING Real Estate, taking their total allocation to 13%.*
 - c) *To approve the introduction of currency hedging for 75% of the Fund's currency exposure and an active currency overlay strategy to the full value of the Fund's currency exposure with a tracking error target of 2-3%.*
 - d) *To approve the introduction of a new Global Unconstrained Equity manager with a value bias using 7.5% of the Fund.*
 - e) *To allocate 5% of the Fund to Long-Short Equity and to confirm that 2.5% of this will come from Western Asset Management's bond mandate.*
 - f) *To request the County Treasurer to start the procurement process in respect of the appointment of the new managers forthwith with a view to bringing back a shortlist to this Committee at the end of 2007 for final decision following formal presentations.*
 - g) *To agree that the County Treasurer should not pursue discussions with Western Asset Management about unconstrained bond investing.*

Main Considerations

3. Since that meeting it became clear that, although the report highlighted the issue, there was not a formal resolution confirming the previous "in-principle" decision to move 7.5% of the Fund managed by Baillie Gifford from core equities (3.5% UK and 4% overseas) to their Long Term Global Growth Fund. This is included as a resolution on this report for completeness.
4. Members will remember that the special meeting of the Committee planned for 9 October 2006 to meet potential new managers was postponed because the original timetable had been too ambitious.

5. Due to staff changes and capacity issues, it has not been possible to move forward the implementation of the investment strategy changes. I am currently working on a full review of the workload on the Wiltshire Pension Fund compared to the available capacity, particularly in relation to the Investment Strategy changes, the current tender of the Custody contract and the forthcoming 2007 Actuarial Valuation.
6. At the time of writing, this work was not completed. I will be able to give Members a verbal update at the meeting. My current assessment is that we will be ready for meetings with potential managers in early Spring 2007 with implementation of the new arrangements in the early Summer 2007.

Risk Assessment

7. Assuming that the new Investment Strategy immediately delivers the returns that were predicted in the report which Members considered in July, every month that implementation of this strategy is delayed will cost the Fund in the region £0.600-0.700 million. I am therefore very conscious of the need to move this forward as quickly as possible to avoid the risk of significant financial detriment to the Fund.

Financial Considerations

8. Implementation of the Strategy will cost a significant amount of money in terms of officer time, professional fees and the cost of the investment transition itself. I am currently assessing what this cost is likely to be, but when considered in the light of the annual improvements in investment returns of £7-8 million that should follow, the pay-back period will be very short.

Environmental Impact of the Proposals

9. There are none.

Proposals

10. Members are asked to:

- a) approve the move of 7.5% of the Fund which is managed by Baillie Gifford from core equity product (3.5% UK and 4% Overseas) to the Long Term Global Growth Fund; and
- b) note the position in relation to the implementation of the revised Investment Strategy.

SANDRA SCHOFIELD
Acting County Treasurer

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Unpublished documents relied upon in the production of this report:

NONE

28/2007/WPF/DB