



# AUDIT AND PENSIONS COMMITTEE

8 December 2011

**CONTRIBUTORS**

**INVESTMENT STRATEGY REVIEW**

**WARDS  
All**

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This report seeks approval to a new Liability Benchmark Portfolio (LBP) for the Pension Fund following the 2010 Actuarial Valuation.

**RECOMMENDATION:**

1. To agree the new Liability Benchmark Portfolio proposed by Psolve with an outperformance target of 2.2% with effect from 1<sup>st</sup> April 2011.

**LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS**

| <b>No.</b> | <b>Description of Background Papers</b> | <b>Name/Ext. of Holder of File/Copy</b> | <b>Department/ Location</b> |
|------------|---|---|-----------------------------|
| 1          | Psolve File                             | P. Gough<br>Extension 2542              | Room 42,<br>Town Hall       |

## 1. LIABILITY BENCHMARK PORTFOLIO

1.1 Psolve has produced a report which is attached reviewing the Investment Objectives and Strategy of the Pension Fund. On the 22<sup>nd</sup> November 2011 Psolve gave a briefing session to members and officers on their proposals.

1.3 One of their proposals is to update the Liability Benchmark Portfolio (LBP) in order to have an investment objective for the fund which closer matches the liabilities of the fund following the results of the 2010 Actuarial Valuation. More details of the reasoning for this are given in section 2 of the attached report.

1.4 Psolve proposes that the LBP is made up of a portfolio of Index-Linked Gilts that would best match the liabilities on a least risk basis plus an outperformance target. The outperformance target is proposed to be 2.2% and is designed to ensure the Investment Strategy meets its funding objectives. The outperformance objective is discussed in more detail in section 3 of the attached report.

1.5 The LBP is designed to have a similar shape to the liabilities in terms of its sensitivity to the change in interest rates and inflation. The proposed LBP uses the returns from five index-linked gilts as follows:-

|                                     |             |
|-------------------------------------|-------------|
| 1¼% Index-Linked Treasury Gilt 2017 | 45%         |
| 1¼% Index-Linked Treasury Gilt 2027 | 20%         |
| 1⅛% Index-Linked Treasury Gilt 2037 | 10%         |
| ¾% Index-Linked Treasury Gilt 2047  | 5%          |
| 1¼% Index-Linked Treasury Gilt 2055 | <u>20%</u>  |
|                                     | <u>100%</u> |

1.6 The start date for the proposed LBP is 1<sup>st</sup> April 2011 as the contribution rates from the 2010 Actuarial Valuation came in to force on that date.

## 2. INVESTMENT STRATEGY REVIEW

2.1 At the same briefing on the 22<sup>nd</sup> November, Psolve proposed a change in the investment strategy of the fund to include an allocation of the fund's investments in Alternative Investments. The detailed proposals are in Section 5 of the attached report.

2.2 It was proposed that Psolve prepare a paper for the meeting on 23<sup>rd</sup> February 2012 on specific proposals for the fund which would include up to 5% in alternative investments. Psolve pointed out that Barings and Ruffer currently have approximately 2% of the fund in alternatives.

## 3. RECOMMENDATION

3.1 To agree the new Liability Benchmark Portfolio proposed by Psolve with an outperformance target of 2.2% with effect from 1<sup>st</sup> April 2011.