

**REPORT TO: SUPERANNUATION INVESTMENT SUB COMMITTEE
OF THE FINANCE COMMITTEE - 7 JUNE 2006**

REPORT ON: REVIEW OF THE FUND

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 311-2006

1 PURPOSE OF REPORT

This report considers the following reports prepared by Hymans Robertson on the Fund - Review of Investment Strategy and Structure, and Implementation of a New Structure.

2 RECOMMENDATIONS

The Sub-Committee is asked to approve the revised asset allocation structure shown at Appendix 1. This is in line with the following Hymans Robertson's recommendations:

- a Retain the overall level of equities at 70%.
- b Move the UK: Overseas balance of equities from 60:40 to 50:50.
- c Investigate the benefits of introducing an active Currency overlay manager.
- d Increase the allocation of Property from 9% to 12%.
- e Review the performance targets and benchmarks for the Bond managers (Fidelity and Goldman Sachs).
- f Reduce the cash balance in the benchmark from 2% to 0.

After consideration of the private equity option suggested by Hymans Robertson the officers' view is that this should not be introduced into the structure meantime.

3 FINANCIAL IMPLICATIONS

There may be some transitional costs as managers adjust their portfolios but it is expected this will be outweighed by potential additional return.

4 LOCAL AGENDA 21 IMPLICATIONS

None.

5 EQUAL OPPORTUNITIES IMPLICATIONS

None.

6 BACKGROUND

The Fund has recently received the results of its triennial valuation which shows it was 91% funded at 31 March 2005. It is also approaching three years since the current manager and asset allocation structure was put in place.

It was therefore felt appropriate that these arrangements should be reviewed and Hymans Robertson prepared two reports considering this and how any changes could be made.

7 REVIEW OF INVESTMENT STRATEGY AND STRUCTURE

Hymans Robertson reviewed the current Fund strategy and in particular the level of risk being taken. On the basis of this they propose an asset allocation as shown at Appendix 1.

The view of the officers is also shown at Appendix 1. The only difference is the exclusion of private equity. This has been excluded because there is still concern that it is difficult to become fully invested in private equity, it can be fairly illiquid and the returns are not always transparent. It is also considered that the additional potential benefits from such a small percentage holding may be outweighed by additional compliance, monitoring and administrative costs.

8 IMPLEMENTATION OF A NEW STRUCTURE

Hymans Robertson evaluated each of the managers and their mandates as follows:

Alliance Bernstein - have performed strongly but we should consider reducing the proportion they need to invest in UK.

Fidelity - generally sound but some concerns over UK equities and bonds.

Baillie Gifford - struggled slightly over the three years and may be more suited to UK than global equities.

Goldman Sachs - still in favour.

Schroder - strong performance throughout the period.

During the presentation Hymans Robertson will outline their views on how the strategy could be implemented and its effect on individual manager's benchmarks.

9 NEXT STEPS

In light of Hymans Robertson's comments, it is considered that officers should discuss options with each manager and report back on any proposed changes designed to take advantage of their strengths.

It is not considered that there needs to be any significant changes to the level of funds assigned to each manager (other than the increase to Schroder Property as a result of the changed asset allocation).

Updates on the progress of these matters will be reported back to the Sub-Committee.

10 BACKGROUND PAPERS

Hymans Robertson - Review of Investment Strategy and Structure (May 2006)
Implementation of a New Structure (May 2006)

DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE)

1 JUNE 2006

APPENDIX 1

<u>Asset</u>	<u>Current</u>	<u>Hymans Robertson</u>	<u>Officer</u>
UK Equities	42	32.5	35
Overseas Equities	28	32.5	35
North America	9	13	14
Europe ex-UK	9	7	7
Japan	4	5.5	6
Pacific Basin	4	3.5	4
Emerging Markets	2	3.5	4
Private Equity	-	5	-
Total Equities	70	70	70
Gilts & Corporate Bonds	10	13	13
Overseas Bonds	4	-	-
Index Linked	5	5	5
Total Bonds	19	18	18
Property	9	12	12
Cash	2	-	-
Total	100	100	100