

<b>REPORT TO:</b>	<b>PENSION COMMITTEE</b> <b>14 May 2013</b>
<b>AGENDA ITEM:</b>	<b>7</b>
<b>SUBJECT:</b>	<b>Update on the Implementation of the Investment Strategy</b>
<b>LEAD OFFICER:</b>	<b>Director of Finance and Assets (Section 151 Officer)</b>
<b>CABINET MEMBER</b>	<b>Deputy Leader (Statutory) and Cabinet Member for Housing, Finance and Asset Management</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
Sound Financial Management: Reviewing the performance of the pension fund, including asset allocation and investment managers, against the benchmark and the actuarial assumptions.	
<b>FINANCIAL SUMMARY:</b>	
This report considers the implementation of the new Investment Strategy and details the progress made to date.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</b>	

**For general release**

<b>1</b>	<b>RECOMMENDATIONS</b>
1.1	That the Committee note the decisions that have been taken in relation to the revised asset allocation.

**2. EXECUTIVE SUMMARY**

2.1 Following the approval of a new Investment Strategy at the Committee meeting on the 5<sup>th</sup> of March 2013, the fund's investments need to be rebalanced to reflect the revised asset allocation. This details both allocations made to fund managers and proposed allocations.

**3. DETAIL**

3.1 The Croydon Council Governance Compliance Statement for the Pension Fund sets out the terms of reference for the Committee in line with the statutory guidance. Principally the Committee's terms of reference are to deal with all matters relating to the investment and the management and administration of the Pension Fund. On the 5<sup>th</sup> of March 2013 the Committee agreed to adopt a revised Investment Strategy for the Fund (the Strategy). This report provides an update as to the implementation of the Strategy.

## 3.2 Infrastructure

3.2.1 The revised investment strategy allows for a 5% allocation to infrastructure. The allocation has been satisfied in part by reclassifying the fund's investments with Equitix as infrastructure (formally private equity). A summary of the fund's investment with Equitix as at the 31<sup>st</sup> of March 2013 is outlined below:

<b>Fund</b>	<b>Commitment</b>	<b>Capital Invested</b>	<b>Market Value</b>
Equitix Fund I	10,000,000	9,673,996	16,026,393
Equitix Fund II	10,000,000	5,406,000	6,669,712
<b>Total</b>	<b>20,000,000</b>	<b>15,079,996</b>	<b>22,696,105</b>

3.2.2 The Director of Finance and Assets (Section 151 Officer) in consultation with the Chair has agreed to invest £5 million in Equitix's Energy Efficiency Fund. This Fund leverages government seed funding to invest in bundles of green investment projects. A due diligence process has been completed and the contract has now been sealed.

## 3.3 Private Equity

3.3.1 In order to reach and maintain the target weighting for private equity investments the Fund will continue to subscribe to Pantheon and Knightsbridge funds. The latest vintage for Knightsbridge will be KVC VIII. For the period 2013 to 2014, drawing down until 2023, the Fund will commit £27 million to Pantheon. This will comprise £10 million to PGCO II, the co-investment fund, £10 million to PGSF V, the Secondaries fund, and £7 million to their Global Fund in 2014.

## 3.4 Hedge Funds

3.4.1 The hedge fund allocation remained unchanged at 4% of the market value of the portfolio. This asset class can either introduce diversity into the fund; generate alpha beyond that associated with the active equity component of the portfolio, but from different sources; or act to control and dampen volatility in the Fund. The strategy had previously been to have two parallel investments in fund of funds, managed by Fauchier and BlueCrest. Following full redemption of the Fauchier fund, a decision has been taken to increase the allocation to BlueCrest's AllBlue to 4% of total market value of the pension fund's investments.

## 3.5 Property

3.5.1 The property allocation has been increased from 7% to 10% of the total market value of investments. The fund's investment advisors, Aon Hewitt, have prepared a paper entitled Property Portfolio Restructuring which will be dealt with elsewhere on the agenda.

## 3.6 Fixed Income

3.6.1 The increased allocation to infrastructure and property will be funded in part by decreasing the fixed income allocation from 30% to 25%. Officers are examining the various options and will provide recommendations by the September committee meeting.

**4. CONSULTATION**

4.1 Officers have consulted with investment advisors and committee members.

**5. FINANCIAL CONSIDERATIONS**

5.1 There are no specific financial considerations within this report.

**6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

6.1 The Council Solicitor comments that that there are no direct legal implications arising from this report.

(**Approved by:** Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer)

**7. OTHER CONSIDERATIONS**

7.1 There are no Human Resources, Customer Focus, Equalities, Environment and Design, Crime and Disorder, Human Rights, Freedom of Information or Data Protection considerations arising from this report.

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**BACKGROUND DOCUMENTS:**

None