

Bath & North East Somerset Council

MEETING:	Avon Pension Fund Investment Panel	
MEETING DATE:	17 MAY 2012	AGENDA ITEM NUMBER
TITLE:	Review of Rebalancing Policy	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Review of Rebalancing Policy		

1 THE ISSUE

- 1.1 The Fund's rebalancing policy seeks to ensure the Fund is invested in line with its strategic benchmark.
- 1.2 In response to a period of increased investment market volatility, the Fund's rebalancing policy is currently suspended. This paper proposes changes to the rebalancing policy so that it can be implemented across all market environments.

2 RECOMMENDATION

- 2.1 The Investment Panel makes a recommendation to the Avon Pension Fund Committee regarding changing the Fund's rebalancing policy.**

3 FINANCIAL IMPLICATIONS

3.1 The rebalancing policy will be implemented by the Investments Team in consultation with the Investment Consultant where required. Where the Officers need to seek the Investment Consultant's advice in detail, there will be extra advisory charges.

4 BACKGROUND

4.1 The Fund's current rebalancing policy was agreed by Committee in September 2009. Following recent market volatility, the rebalancing policy has been suspended to avoid incurring costs due to overtrading.

4.2 In the Committee meeting on 16 March 2012, some Committee members expressed the view that the policy should be reviewed rather than remain suspended indefinitely.

4.3 Officers have therefore produced this report for the Investment Panel to consider recommending to Committee changes to the rebalancing policy.

5 REBALANCING POLICY

5.1 The Fund's current rebalancing policy is to rebalance between equities and bonds when the ratio of equities to bonds deviates by +/-2% from 75%/25% ratio. The hedge fund portfolio and the investments in property are not included in the rebalancing mechanism but have a separate framework for reviewing their allocation against the strategic benchmark.

5.2 In addition, rebalancing is subject to an additional trigger based on the relative value between equities and gilts (estimated using the equity gilt ratio). This additional trigger aims to minimise overtrading and ensure rebalancing only occurs if market valuations were favourable.

5.3 The current policy operates using a mechanical process and as such there is no opportunity for tailoring the process to market conditions except for the policy to be suspended.

6 PROPOSED CHANGES

6.1 The Fund's investment consultant has produced a report at Appendix 1 that proposes changes to the current rebalancing policy.

6.2 The rationale behind the changes is to introduce an element of flexibility by providing for tactical views to be incorporated into the decision making and so avoid trading at inopportune times. The proposal also seeks to formally include the less liquid assets into the rebalancing policy framework.

6.3 The changes are as follows:

(1) For equities / bonds, amend the thresholds for rebalancing by introducing a two-tiered set of boundaries;

a) A deviation of 2% to 5% is subject to tactical review by Officers, and

b) A deviation of 5% or more results in 'automatic' rebalancing back to at least the 2% threshold.

(2) Introduce soft boundaries for hedge funds and property that trigger a review by the Investment Panel, no-less than 6 monthly:

a) Property +/- 5% (i.e. a range of 5% to 15% of Fund assets)

b) Fund of Hedge Fund +5% (i.e. a max range of 15% of Fund assets)

6.4 The rebalancing policy will be implemented by Officers, having consulted the investment advisors. Any recommendations from the Panel regarding 6.3(2) would have to be agreed by the Committee.

6.5 Any rebalancing activity will be reported to Committee at the next quarterly meeting.

7 RISK MANAGEMENT

7.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund. The rebalancing policy has the objective of avoiding significant drift from the strategic benchmark. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

8 EQUALITIES

8.1 This report is primarily for information only.

9 CONSULTATION

9.1 This report is primarily for information and therefore consultation is not necessary.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 The issues to consider are contained in the report.

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, Investments Manager (Tel: 01225 395306)
Background papers	
Please contact the report author if you need to access this report in an alternative format	