

## Rebalancing Policy

The rebalancing policy ensures that the Fund's asset allocation remains broadly aligned with the strategic benchmark given relative market movements of assets over time and the net investment/divestment of cash. Therefore the policy must ensure all rebalancing decisions fall within the strategic framework as set out in the following table:

<b>Assets</b>	<b>Current Target</b>	<b>New Target</b>	<b>Proposed Range</b>
<b>Total Growth</b>	<b>80%</b>	<b>80%</b>	<b>65 - 85%</b>
Equities	60%	50%	45 - 55%
<i>Developed</i>	55%	40%	35 - 45%
<i>Emerging Markets</i>	5%	10%	5 - 15%
Diversified Growth Funds		10%	5 - 15%
Illiquid Growth	20%	20%	15 - 25%
<i>Hedge Funds</i>	10%	5%	0 - 7.5%
<i>Property</i>	10%	10%	5 - 15%
<i>Infrastructure</i>		5%	0 - 7.5%
Other Growth		0%	0 - 5%
<b>Total Stabilising</b>	<b>20%</b>	<b>20%</b>	<b>15 - 35%</b>
<i>Government Bonds</i>	6%	3%	0 - 10%
<i>Index-linked Bonds</i>	6%	6%	3 - 10%
<i>Corporate Bonds</i>	5%	8%	4 - 20%
<i>Other Bonds</i>	3%	3%	0 - 5%
<b>Cash</b>		<b>0%</b>	<b>0 - 5%</b>

The rebalancing policy is as follows:

- (1) The rebalancing policy includes rebalancing between equities & diversified growth funds ("liquid growth assets"), bonds ("stabilising assets") and cash. All these investment are deemed liquid.
- (2) The strategic allocation to liquid growth assets, stabilising assets and cash is 60% /20% /0%, giving a ratio of 75/25/0.
- (3) For the ratio between liquid growth assets / stabilising assets, there is a two-tiered set of boundaries:
  - i. A deviation of 2% to 5% is subject to tactical review by Officers, having consulted the Investment Consultant, and
  - ii. A deviation of 5% or more results in consultation with the Investment Panel. At this point the Panel will agree to either an automatic rebalancing back to at least the 2% threshold or a tactical decision to allow a deviation of more than 5% as long as it remains within the strategic asset allocation range.
  - iii. Allocation to cash is permitted under (i) and (ii) above to bring the liquid growth/stabilising allocations within the boundaries. Cash cannot

exceed 5% of Fund value (this excludes cash held as collateral for futures or forward contracts, and the cash held in the Blackrock portfolio set aside for investing in property).

- (4) For hedge funds and property allocations the following will trigger a review by the Investment Panel:
  - i. Property +/- 5%: around its target allocation of 10% (i.e. a range of 5% to 15% of Fund assets)
  - ii. Fund of Hedge Funds: - 5% to + 2.5% around its target allocation of 5% (i.e. a range of 0% to 7.5% of Fund assets).
- (5) Rebalancing within growth and stabilising assets will be based on the strategic benchmark and performance (of active managers) and will take account of any tactical positions.
- (6) Net new money should be invested / divested in line with the strategic policy, taking account of tactical positions, and net new money should be utilised first if a rebalancing is triggered.
- (7) The rebalancing policy will be implemented by Officers, having consulted the Investment Consultant or Panel if an automatic rebalancing is triggered. Any recommendations from the Panel that take the asset allocations outside the permitted strategic ranges will have to be agreed by the Committee.
- (8) Rebalancing activity will be reported to Panel and Committee at the following quarterly meeting.
- (9) For clarity, the percentages in (3) refer to the ratio allocation between growth and stabilising assets which is 75%: 25%. It is the changes in this allocation that will trigger the rebalancing as outlined in the policy. The corresponding trigger levels expressed in terms of the strategic benchmark allocations are as follows:

	<b>Liquid Growth/Stabilising Ratio for Rebalancing</b>	<b>Corresponding Strategic Allocation</b>
Strategic Allocation	75% : 25%	60%: 20%
Boundary for tactical review by officers	73% : 27% or 77% : 23%	58.4% : 21.6% or 61.6% : 18.4%
Boundary for 'automatic' rebalancing	70% : 30% or 80% : 20%	56% : 24% or 64% : 16%

Therefore the boundaries in the rebalancing policy are within the strategic ranges.

Note:

The Avon Pension Fund Terms of Reference (2013) states that the Investment Panel will:

“Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee...and have delegated authority to:

- a. Approve and monitor tactical positions within strategic allocation ranges.
- b. Approve investments in emerging opportunities within strategic allocations...”

**To be approved by Avon Pension Fund on 21 June 2013**