

## Section 1 - Proposed Rebalancing Policy

### Rebalancing Ranges

1. Allocations to be kept within the appropriate rebalancing ranges set out in Table 1. The neutral range is the range within which the allocation can move before any rebalancing is required, regardless of whether the asset class is deemed attractive or unattractive.
2. If the asset outlook is deemed attractive, then the allocation can be higher than the higher band of the neutral range but it cannot be below the lower band of the neutral range (as per the "Attractive" column in Table 1).

If the asset outlook is deemed unattractive, then the allocation can be lower than the lower band of the neutral range but it cannot be higher than the higher band of the neutral range (as per the "Unattractive" column in Table 1).

3. Where allocations breach the neutral rebalancing range boundary, action will be taken to rebalance to the benchmark allocation, unless it is decided that the outlook for an asset class is judged to be materially attractive or unattractive to warrant the use of a wider rebalancing range as set out in Table 1.

Table 1: Rebalancing Ranges

<b>Asset class</b>	<b>Benchmark</b>	<b>Permitted Range SIP</b>	<b>Neutral rebalancing range</b>	<b>"Unattractive" rebalancing range</b>	<b>"Attractive" rebalancing range</b>
<b>Growth assets</b>	<b>80%</b>	<b>65-85%</b>	<b>+/- 3%</b>	<b>65%-83%</b>	<b>77%-85%</b>
<i>Equities</i>	50%	45-55%	+/- 2%	45%-52%	48%-55%
<i>Developed</i>	40%	35-45%	+/- 2%	35%-42%	38%-45%
<i>Emerging</i>	10%	5-15%	+/- 1%	5%-11%	9%-15%
<i>Diversified Growth Funds</i>	10%	5-15%	+/- 2%	5%-12%	8%-15%
<i>Illiquid Growth, of which:</i>	20%	15-25%	-	N/A	N/A
<i>Hedge Funds</i>	5%	0-7.5%	-	N/A	N/A
<i>Property</i>	10%	5-15%	-	N/A	N/A
<i>Infrastructure</i>	5%	0-7.5%	-	N/A	N/A
<i>Other Growth</i>	0%	0-5%	<i>Depends on investment</i>	N/A	N/A
<b>Stabilising Assets</b>	<b>20%</b>	<b>15-35%</b>	<b>+/- 3%</b>	<b>15%-23%</b>	<b>17%-35%</b>
<i>Government Bonds</i>	3%	0-10%	+/- 1%	0%-4%	2%-10%
<i>Index Linked Bonds</i>	6%	3-10%	+/- 1%	3%-7%	5%-10%
<i>Corporate Bonds</i>	8%	4-20%	+/- 2%	4%-10%	6%-20%
<i>Other Bonds</i>	3%	0-5%	<i>Depends on investment</i>	N/A	N/A
<b>Cash</b>	<b>0%</b>	<b>0-5%</b>	<b>-</b>	<b>N/A</b>	<b>N/A</b>

## **Illiquid and Other Allocations**

4. Illiquid asset classes will be allowed to vary within the permitted range (as per Table 1).
5. The Panel will review illiquid allocations when they breach the permitted range boundary and may do so as they approach the top or bottom of the permitted range but no more frequently than 6 monthly. The timeframe for any rebalancing of illiquid asset allocations will be made with due consideration for liquidity and transaction costs.
6. Neutral rebalancing ranges for the opportunistic 'other' investments categories to be agreed on implementation of such investments.

## **Section 2 – Policy Implementation**

### **Decision Making Process**

1. Rebalancing within the neutral rebalancing range will be implemented by Officers.
2. To allow an allocation to remain outside of the neutral rebalancing range but within the relevant (attractive or unattractive) rebalancing range, the process is as follows:
  - a. Investment Consultant view of outlook for the asset class must be either attractive or unattractive.
  - b. Officers decide it may be beneficial to make use of the wider ranges as set out in Table 1.
  - c. Confirmation advice is sought from Investment Consultant before allowing an allocation to remain outside of the neutral rebalancing range (but within the relevant attractive/unattractive rebalancing range).
3. Any positions outside the neutral rebalancing range will be reviewed at Panel meetings.

### **Implementation Considerations**

4. Rebalancing within equities and bonds will take account of performance (of active managers), cost and efficiency considerations.
5. Net new money should be invested pro rata in line with the strategic policy, taking account of tactical positions, and net new money should be utilised first if a rebalancing is triggered.
6. Any positions outside of the neutral rebalancing range will be reviewed at Panel meetings, and all rebalancing activity will be reported to Committee at the following quarterly meeting.
7. This rebalancing policy is overridden by any triggers decided upon when an active tactical asset allocation is put in place on advice from the Investment Consultant.
8. There may be exceptional circumstances where Officers and Advisors agree that the rebalancing framework should be suspended. Committee will be notified of such circumstances.

*For approval by Investment Panel, 18 November 2015*

**Current Rebalancing Policy**

- (1) For the ratio between and equities / bonds, 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 'automatic' rebalancing back to at least the 2% threshold. An additional tactical decision is then taken by the Officers supported by the Fund's consultants on whether this is fully rebalanced back to the central benchmark allocation or otherwise.
- (2) For hedge funds and property allocations the following will trigger a review by the Investment Panel, no-less than 6 monthly:
  - i. Property +/- 5% (i.e. a range of 5% to 15% of Fund assets)
  - ii. Fund of Hedge Fund +5% (i.e. a max range of 15% of Fund assets)
- (3) Rebalancing within equities and bonds will be based on the strategic benchmark and performance (of active managers) and will take account of any tactical position
- (4) Net new money should be invested pro rata in line with the strategic policy, taking account of tactical positions, and net new money should be utilised first if a rebalancing is triggered.
- (5) The rebalancing policy will be implemented by Officers, having consulted the Investment Consultant. Any recommendations from the Panel regarding (2) would have to be agreed by the Committee.
- (6) Any rebalancing activity will be reported to Committee at the following quarterly meeting.

Approved by Avon Pension Fund 22 June 2012.