

Report for: ACTION



<b>Contains Confidential or Exempt Information</b>	<i>NO - Part I</i>
<b>Title</b>	Global Equity Mandates
<b>Responsible Officer(s)</b>	Nick Greenwood
<b>Contact officer, job title and phone number</b>	Nick Greenwood Pension Fund Manager 01628 796701
<b>Member reporting</b>	Investment Working Group
<b>For Consideration By</b>	Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	11 April 2016
<b>Implementation Date if Not Called In</b>	None
<b>Affected Wards</b>	None

## REPORT SUMMARY

1. This report recommends that the holding in the IPM RAFI Enhanced Index Fund be redeemed and then proceeds invested equally between RWC and Kames Capital in their dividend growth strategies.

## If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. The income produced by investing in the RWC and Kames Capital dividend growth strategies will assist in meeting the gap between contributions received and benefits paid thereby reducing any need to sell assets to pay benefits.	On-going

## 1. DETAILS OF RECOMMENDATIONS

### RECOMMENDATION: That Panel

- i. confirms the redemption of the Fund's holding in the IPM RAFI Enhanced Index Fund

ii. agrees that the proceeds of that redemption be proceeds invested equally between RWC and Kames Capital in their dividend growth strategies.

## 2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 1.1 The Fund's holding in the IPM RAFI Enhanced Index fund has been on "amber" for a considerable period of time. The investment in this fund was originally made in 2008; the investment thesis being that weighting holdings of stocks in a portfolio according to the relative size of fundamental items such as sales and cash-flow rather than by market capitalisation would add value (relative to an index) as there would be a tendency to "buy low" and "sell high". Unfortunately this has failed to add value over the past 7 years and the holding has been on amber watch for the majority of the past 3 years.
- 1.2 The Investment Working Group reviewed the holding at its January meeting and opined that sufficient time had elapsed for the original investment thesis to either work or not work; unfortunately with a total return performance tracking the market capitalisation index it was agreed that it had not worked.
- 1.3 The Investment Working Group aware of the Fund's requirement of a growing income to meet any shortfall between contributions received and benefits payable unanimously agreed to recommend to Panel that the holding in the IPM fund (value approximately £170 million) be redeemed and the proceeds divided equally between RWC and Kames Capital (approximately £85 million each) for reinvestment in the equity dividend growth portfolios maintained by these managers for the Fund.
- 1.4 The Investment Working Group recommend that the holding in the IPM RAFI Enhanced Index fund be redeemed and the proceeds invested equally between the RWC and Kames Capital equity dividend growth portfolios.

Option	Comments
Redeem the IPM RAFI Enhanced Index Holding	<b>Recommended by the Investment Working Group</b>
Invest the redemption proceeds equally between the RWC and Kames Capital equity dividend growth portfolios	<b>Recommended by the Investment Working Group</b>
Do not redeem the IPM RAFI Enhanced Index fund holding	Not recommended due to continuing disappointing performance
Do not invest the redemption proceeds equally between the RWC and Kames Capital equity dividend growth portfolios	Not recommended – the holding represents around 10% of the Fund's assets and the proceeds should be redeployed in global equity investments.

### 3. KEY IMPLICATIONS

3.1

Defined Outcomes	Unmet	Met	Exceeded	Significantly Exceeded	Date they should be delivered by
Growth in investment income received	£4 -6 million per annum	£6 – 7 million per annum	£7 – 8 million per annum	>£ 8 million per annum	31 March 2018

### 4. FINANCIAL DETAILS

### 5. LEGAL IMPLICATIONS

5.1 None

### 6. VALUE FOR MONEY

6.1 The revised fees on a pro-rata basis are lower than for the existing RWC and Kames Capital mandates

### 7. SUSTAINABILITY IMPACT APPRAISAL

7.1 None.

### 8. RISK MANAGEMENT

8.1 The investments form part of a diversified portfolio

### 9. LINKS TO STRATEGIC OBJECTIVES

9.1 The proposed investments are in-line with the Fund's stated objective of growing investment income.

### 10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION

10.1 None

### 11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS

11.1 None

### 12. PROPERTY AND ASSETS

12.1 None

### 13. ANY OTHER IMPLICATIONS

13.1 N/a

#### **14. CONSULTATION**

14.1 Investment Working Group January 2016

#### **15. TIMETABLE FOR IMPLEMENTATION**

15.1 Immediate

#### **16. APPENDICES**

None

#### **17. BACKGROUND INFORMATION**

None