HYMANS ROBERTSON LLP

Considering Interim Changes to Asset Allocation

Introduction

This paper is addressed to the Committee ("the Committee") of the Gwynedd Pension Fund ("the Fund"). It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have especially accepted such liability in writing.

Background

At the meeting of the Pensions Committee in November, we discussed the potential for making temporary changes to the Fund's asset allocation in conjunction with Hymans' Capital Market Service (CMS). This service is directed at filling the gap between setting the long term strategic asset allocation and the outright short term tactics adopted by investment managers. We would be looking to identify valuation anomalies in asset classes which may take 1, 2, 3 years, or even longer, to return to sensible value. This is an area often ignored by traditional active investment managers.

We discussed how we might use this service in relation to the Gwynedd Pension Fund.

We raised three separate questions:-

- Are the Committee comfortable that there is merit in making temporary medium term changes to the Fund's central asset allocation?

It was felt at that meeting that the Committee might in principle be comfortable with making limited changes to the Fund's asset allocation.

- If so, can they agree ranges around the core target allocations within which they are comfortable to operate? These ranges should be set such that there is no **material** change to the Fund's broad risk and return characteristics.

- Should there be any delegation of decision-making which would allow more timely decisions to be made in implementing or closing out such temporary positions?

These two issues are addressed in more detail below.

Potential ranges for asset allocation

The Pensions Committee is responsible for setting the long term asset allocation for the Fund. This tends to be reviewed formally every three years in conjunction with the actuarial valuation and taking into account the Fund's long term objectives and liability profile. The aim of that exercise is to establish the most appropriate level of risk and return within the asset allocation.

When considering temporary changes to the asset allocation, we would not wish to advocate positions that materially change the Fund's broad level of risk and expected return, as this would undermine the rationale for the broad strategy. For example, we believe that a reduction in the Fund's equity allocation from 70% to 50% on the view that equities were looking expensive on a historical comparison would be too extreme a position to take. (This would leave the Fund's asset allocation in a position that would have been regarded as unacceptably defensive when the last forma review of then strategy was carried out). We have therefore shown below ranges for the asset allocation which we believe would allow a meaningful benefit to be earned without changing the broad shape of the Fund's investments.