

Post Transition Note – Newton to Schroders

Introduction

This paper is addressed to the Officers and Committee of the Isle of Wight Council as Administering Authority for the Isle of Wight Council Pension Fund (“the Fund”). It provides an update on the completion of the recent transition of assets from Newton Investment Management (“Newton”) within the ACCESS pool to Schroders Investment Management (“Schroders”).

We accept no liability where the paper is used by, released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form.

Background

As a result of market moves over 2020 to date, the Fund’s allocation to global equities with Newton was significantly overweight relative to the strategic asset allocation and exceeded the allowed tolerances. The actual allocation to global equities as at 31 August 2020 was 37.2%, compared to the strategic target allocation of 32.5%.

At the Committee meeting in July 2020, the Committee agreed to reduce the Fund’s overweight position to global equities by 2% and reinvest this into the underweight allocation to the fixed income portfolio. The main aims of this re-balancing switch were to crystallise recent market gains, reduce equity risk and bring the Fund’s asset allocation back to within the agreed strategic tolerance ranges. It was agreed to transfer 2% of total Fund assets (£13m) from the BNY Mellon Global Equity Fund (formally the Newton Global Equity Fund) within ACCESS to the Schroders Fixed Income Portfolio.

The Committee agreed to Hymans managing this transition and working with the pension Fund Officers, Link Asset Services, Northern Trust, Schroders and Newton to co-ordinate the required disinvestment and transfer of cash into the Schroders Fixed Income Portfolio.

Transition summary

On 21 September 2020 £13m was disinvested from the Fund’s BNY Mellon Global Equity mandate, and subsequently invested in the Schroders Fixed Income Portfolio. The change to the Fund’s asset allocation from 31 August 2020 to 30 September 2020 is summarised in the table below.

Mandate	Valuation 31 Aug (£m)	Proportion 31 Aug (%)	Transition moves (£m)	Valuation 30 Sept (£m)	Proportion 30 Sept (%)	Strategic target (%)
Majedie UK Equity	132.3	20.5%		129.0	20.1%	22.5%
Newton Global Equity	240.3	37.2%	-13.0	225.1	35.1%	32.5%
Baillie Gifford DGF	109.9	17.0%		108.7	16.9%	15.0%
Schroders Property	35.6	5.5%		36.1	5.6%	8.0%
Schroders Fixed Income	128.7	19.9%	+13.0	142.9	22.3%	22.0%
Total	646.8	100.0%		641.9		100.0%

Costs incurred

A dilution levy applied to the Newton disinvestment incurring direct costs of £14.3k, in line with the anticipated transition costs.

There were no direct transition costs associated with the Schroders investment. The Schroders Fixed Income Fund is single priced, and the single price of the Fund swung by -0.31% on the day of trade, meaning the Fund bought units at a discount which is a benefit to the Fund equivalent to a value of c£40.3k.

The total direct transition costs incurred from the re-balancing transition (not including the beneficial impact of the swing in the price of the Schroders fund) were therefore £14.3k (c.0.11% of transitioned assets).

Market risk/impact

The settlement periods of the two managers was such that the Fund was able to buy units of the Schroders Fixed Income Fund on the same day on which the Fund sold units from the Newton fund with the cash proceeds from the Newton sales being transferred to Schroders on settlement. There was therefore no direct market impact from the transition of assets.

Summary

We are satisfied that the transition was carried out in accordance with the agreed transition plan and the Fund's allocations have been appropriately re-balanced to within the tolerable strategic allocation ranges.

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For and on behalf of Hymans Robertson LLP

Transition Risk Warning

This report is important and is addressed to the Officers of the Isle of Wight Council as Administrating Authority for the Isle of Wight Council Pension Fund. This report should not be disclosed to any third party without the prior written agreement of Hymans Robertson LLP, in which case it should be released in its entirety. We accept no liability for any loss incurred by a third party relying on this report with such permission. In this report, we deal with a number of planning issues relating to the proposed transfer of assets from BNY Mellon Investment Management Limited to Schrodgers Investment Management. Our plan for the proposed transfer reflects the circumstances prevailing as at the date of this report.

Please read this report with care and ensure the proposals are consistent with your understanding of the intended course of action. We are unable to proceed without your written consent and await your written agreement to the plan. If you require further information or clarification of any point we shall be pleased to help. Please note that some time may elapse between your approval of the plan and the actual implementation date and that during that this period market movements may work to the detriment of the intended course of action. We will not monitor market movement between the date of this report and the actual implementation date. We will not be liable for any loss, whether direct or consequential arising from a lapse in time arising between your approval of the plan and the actual implementation date.

Transition Reconciliation Caveat

Please note that our work does not constitute a full audit of the transition process, rather it is based on a number of 'high-level' checks and reconciliations, with limited test checking of individual transactions. We have relied upon information provided to us by the transferor and transferee managers in relation to transfers of stocks and cash and have confirmed that they have acted according to properly authorised instructions.

Subject to the above, we are of the opinion that the transition has been completed satisfactorily and that any errors or omissions are immaterial in relation to the total amount involved.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.