COMMITTEE	PENSION COMMITTEE
DATE	29 JUNE 2009
TITLE OF REPORT	APPOINTMENT OF FIDELITY
AUTHOR	DILWYN WILLIAMS, CORPORATE DIRECTOR

1. Fee

1.1 In February the Committee appointed Fidelity to manage a global equity investment portfolio and by now the legal arrangements have been completed and the assets have been transferred from Legal & General to them.

1.2 At a meeting of the Investment Panel in February the performance fee offered by Fidelity was raised and it was noted that we weren't entirely comfortable with the proposed fee and Hymans Robertson were asked to go back to them to see if we could renegotiate, as there was a feeling that the threshold at which the company would gain was too low.

1.3 After discussing the issue with Hymans Robertson a compromise has been reached by changing the percentages payable at different performance levels and in order to be able to move forward with the transfer of assets I have agreed to that compromise. Broadly, the Committee will gain if performance is less than 1% above benchmark but worse off if it is between 1 and 3% above benchmark. I shall detail the arrangements at the meeting.

2. Investments in emerging markets

2.1 The intention outlined during the interviews was for Fidelity to use their "Global Select" strategy on a pooled basis (rather than keeping Gwynedd's investments separately) to invest the Fund's resources and the benchmark used is the MSCI AC index. In this benchmark 9.5% of the assets are meant to be in emerging markets.

2.2 It became apparent a short time before the transfer that Fidelity's Global Select Fund did not have any investment in emerging markets but they intended to start a Select Fund that invests such markets in future but it will not be available for some months.

2.3 Fidelity has another fund available at this time which invests in emerging markets but Hymans recommend that the "select" method of investment manages risks better within a portfolio and is likely to provide more constant outperformance in the long term.

2.4 In order to address this problem, we therefore had several options -

- Rather than transfer 20% of the value of the Fund to Fidelity, transfer 18% now and keep the 2% we have in emerging markets by keeping them in the funds of Legal & General (which includes the investment in the UBS Emerging Market Fund of course) and then transfer the rest to Fidelity when they have an Emerging Market Select Fund ;

- Transfer 20% of Fund assets to the Fidelity Global Select Fund and transferring out of that once Fidelity had a suitable fund;
- Transfer 18% of Fund assets to Fidelity's Global Select Fund and 2% to the other Fund Fidelity has for investments in emerging markets, and transferring out of that when Select Fund is available.

2.5 Obviously the second option above would go against the asset allocation set for the fund whilst the third option goes against the recommendation of our consultants with regards to controlling risk.

2.6 In order to move on with the transfer I have therefore agreed to the first option noted above – namely transferring 18% at present to Fidelity for their Global Select Fund and leaving the developing markets investment with Legal & General until Fidelity has a suitable Fund.

3. Recommendation

3.1 The Committee is asked to confirm the steps taken.