

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	3 SEPTEMBER 2014	AGENDA ITEM NUMBER 8
TITLE:	Review Of Investment Performance For Periods Ending 30 June 2014	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report (shortened version) Exempt Appendix 3 – RAG Monitoring Summary Report		

1 THE ISSUE

- 1.1 This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 30 June 2014.
- 1.2 The report focuses on the performance of the individual investment managers. The full performance report with aggregate investment and funding analysis will be reported to the Committee meeting on 26 September 2014.

2 RECOMMENDATION

That the Investment Panel:

- 2.1 **Notes the information as set out in the report.**
- 2.2 **Identifies any issues to be notified to the Committee.**

FINANCIAL IMPLICATIONS

2.3 The returns achieved by the Fund for the three years commencing 1 April 2013 will impact the next triennial valuation which will be calculated as at 31 March 2016.

3 INVESTMENT PERFORMANCE

A – Fund Performance

3.1 The Fund's assets increased by £156m (return of c. 2.4%) in the quarter, giving a value for the investment Fund of £3,486m at 30 June 2014. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

3.2 All Equity markets achieved positive if only modest returns over the quarter with emerging markets (+5%) outperforming developed markets, of which Europe was the weakest performing region at +0.3% for the quarter. Bond yields fell over the quarter leading to positive returns from Gilts (+2.3%) and corporate bonds (+2.8%) over the quarter.

3.3 The Fund's overall performance relative to benchmarks is unavailable at the time of publishing. Full performance data will be reported to the Pensions Committee on 26 September 2014.

B – Investment Manager Performance

3.4 A detailed report on the performance of each investment manager has been produced by JLT – see pages 13 to 37 of Appendix 2.

3.5 Stenham (Fund of hedge funds) and Schroder (UK property mandate) presented to the Panel in June 2014 and there were no issues identified by the Panel:

- (1) **Stenham:** The Panel were reassured that Stenham seem to be back on track and performing in line with target. As Stenham are rated green the next meeting with the Panel will be within the planned meeting schedule.
- (2) **Schroder (UK Property):** The Panel identified no issues/concerns with performance or the intended future strategy for managing the Fund. It was noted that Schroder forecast returns from UK property to fall over time from their current level which was in line with the assumptions made in the 2013 strategy review.

3.6 Jupiter, Invesco, Genesis, SSGA, BlackRock, Stenham, RLAM and Schrodgers Property are all outperforming their three year performance targets. TT is marginally behind target whilst Signet, Gottex and Schroder global equity are all underperforming their respective 3 year targets.

3.7 Exempt Appendix 3 summarises the latest Performance Monitoring Report used internally to monitor manager performance. The summary report highlights the managers that are rated Amber or Red, detailing the performance and/or organisational issue(s), how they are being monitored and any actions taken by officers and/or the Panel. This quarter 2 managers have been downgraded to an amber rating:

- i. TT's poor performance this quarter (-3.2% relative), has reduced relative 3 year return to 1.7%, below target and therefore amber rating.

- ii. In August 2014 Barings announced the departure of 3 members of the investment team. Such a significant change to the team results in an amber rating.

These two managers join the three managers already on amber ratings – Gottex, Signet and Schroder Global Equity. There is a detailed update on each of these in Exempt Appendix 3.

4 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

- 4.1 Changes to the Investment Strategy agreed in March 2013 that are still in the process of being implemented are as follows:

	Project	Progress
	Infrastructure	On Track: Manager selected, implementation underway with a view to completing subscription process during the next quarter. Note that funds will be drawn down over a period of up to 2 years.

- 4.2 The Panel is reviewing how best to structure the Fund’s exposure to hedge funds. This issue is addressed in another item on the meeting agenda.
- 4.3 In April/May the Fund received some lump sum deficit contribution payments from some employers, part of this money was invested (Royal London £23m, Pyrford £12m and Barings £15m) to maintain allocation targets and the remainder held in cash, the effect of this slightly reduced the Equity:Bond ratio and therefore remains within the tactical range for rebalancing. The latest Equity:Bond allocation is 77.8 : 22.2 as at 13 Aug 2014. Officers will continue to incorporate any rebalancing considerations as the new strategy is implemented.

5 RISK MANAGEMENT

- 5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund’s future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors the performance of the investment managers. The Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the Committee on a regular basis.

6 EQUALITIES

- 6.1 An equalities impact assessment is not necessary as the report is primarily for information only.

7 CONSULTATION

- 7.1 This report is primarily for information and therefore consultation is not necessary.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider are contained in the report.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

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Background papers	Data supplied by The WM Company
Please contact the report author if you need to access this report in an alternative format	