

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	25 SEPTEMBER 2015	AGENDA ITEM NUMBER
TITLE:	INVESTMENT PANEL ACTIVITY	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Minutes from Investment Panel meeting held 11 September 2015 [TO FOLLOW] Exempt Appendix 2 – Exempt Minutes from Investment Panel meeting held 11 September 2015 [TO FOLLOW] Exempt Appendix 3 – Recommendations from Currency Hedging Review		

1 THE ISSUE

- 1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.
- 1.2 The Panel has held one formal Investment Panel meeting since the June 2015 committee meeting, on 11 September 2015. The draft minutes of the Investment Panel meeting provides a record of the Panel's debate before reaching any decisions or recommendations. These draft minutes can be found in Appendix 1 and Exempt Appendix 2. The recommendations and decisions arising from these meetings are set out in paragraph 4.1 and Exempt Appendix 3.

2 RECOMMENDATION

That the Committee:

- 2.1 Notes the recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1**
- 2.2 Agrees the recommendations on currency hedging at 4.1 2) a), and points 1), 2) and 3) in Exempt Appendix 3**

3 FINANCIAL IMPLICATIONS

- 3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.
- 3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

4 RECOMMENDATIONS AND DECISIONS

- 4.1 The following decisions and recommendations were made by the Panel since the last quarterly activity report:

Investment Panel Meeting, 11 September 2015:

- (1) **Managing Liabilities:** The Committee requested that the Panel review the range of investment options available to more effectively manage liability risks, how they may be implemented and the potential cost. Having considered a report from Mercer, the Panel agreed the next steps would be as follows:

- a) For the Committee to consider increasing the Fund's allocation to Index Linked Gilts above the current range to allow current allocations within gilts and overseas bonds to be allocated to index linked gilts (ILG).

Given the limited time since the Panel meeting, the rationale for this will be considered in full at the December committee meeting. In the meantime, under the Panel's delegated powers, the switch to ILG will be implemented as far as it can within the permitted allocation ranges.

- b) The Panel will continue to consider the options for liability management and have requested further information from the consultant before making full recommendations to Committee.

- (2) **Review of strategic hedging of currency exposure:** The Panel reviewed the Fund's decision to hedge its currency exposure given the programme has been in place for over three years. Having considered a report produced by Mercer the Panel made the following recommendations:

- a) Recommendation - That the Fund should continue to strategically hedge its exposure to currency risk.

Rationale – Currency risk is unrewarded and leads to volatility of sterling returns. Currency hedging can efficiently reduce volatility from currency risk.

Details on further recommendations are included in Exempt Appendix 3.

5 INVESTMENT PANEL DELEGATION

- 5.1 The activity was undertaken under in line with the delegation set out in the Fund's Terms of Reference approved in May 2015:

The Investment Panel will:

1. *Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.*

2. *Review the Statement of Investment Principles and submit to Committee for approval.*
3. *Report regularly to Committee on the performance of investments and matters of strategic importance*
and have delegated authority to:
 4. *Approve and monitor tactical positions within strategic allocation ranges.*
 5. *Approve investments in emerging opportunities within strategic allocations.*
 6. *Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.*
 7. *Approve amendments to investment mandates within existing return and risk parameters.*
 8. *Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.*
 9. *Delegate specific decisions to Officers as appropriate.*

6 RISK MANAGEMENT

- 6.1 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. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.
- 6.2 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.

7 EQUALITIES

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

8 CONSULTATION

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

9 ISSUES TO CONSIDER IN REACHING THE DECISION

- 9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 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	
Please contact the report author if you need to access this report in an alternative format	