

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Thursday, 11th November, 2010, 1.30 pm

Members: Councillor David Bellotti (Chair), Councillor Gabriel Batt, Councillor Gordon Wood, Ann Berresford, Councillor Mary Blatchford and Andy Riggs (In place of Bill Marshall)

Advisors: Tony Earnshaw (Independent Advisor), Dave Lyons (JLT Benefit Solutions) and Jignesh Sheth (JLT Benefit Solutions)

Also in attendance: Liz Feinstein (Investments Manager) and Matthew Betts (Assistant Investments Manager)

15 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

16 DECLARATIONS OF INTEREST

There were none.

17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Bill Marshall, for whom Andy Riggs substituted.

18 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

19 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

20 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

21 MINUTES: 16 SEPTEMBER 2010

These were approved as a correct record and signed by the Chair.

22 EXCLUSION OF PUBLIC

RESOLVED that, having been satisfied that the public interest would be better served by not disclosing relevant information, and in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following three items of business because of the likely disclosure

of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

23 REVIEW OF HEDGE FUND MANAGERS

The Investments Manager presented the report. She reminded Members of the framework for the review of hedge fund portfolios, which had been adopted by the Avon Pension Fund Committee at its meeting on 25 June 2010. Stage one was a review of the investment and operational performance of the five Fund of Hedge Fund managers. The Panel's comments on them would be fed into the workshop to be held in 1Q11. The workshop will also cover the strategic investment in hedge funds, the allocation to the underlying investment strategies and regulatory issues.

At this meeting the 2 of the hedge fund managers presented to the Panel with the other 3 presenting at the Panel's next meeting. To aid the Panel, JLT prepared a preliminary report on the hedge fund managers which was circulated as an exempt appendix to the agenda report.

Prior to the presentations Mr Lyons highlighted the key findings of the report to help focus the discussion with the managers.

Following discussion, it was **RESOLVED** to identify issues with the individual hedge fund managers to be incorporated into the review of the Fund's hedge fund investments.

24 MEET THE MANAGER - GOTTEX FUND MANAGEMENT

Richard Leibovitch (Chief Investment Officer, co-PM of Gottex Market Neutral Funds), Chris Hawkins (Managing Director, co-PM of Gottex Market Neutral Funds) and Michael Lorraine (Director Institutional Sales, Gottex Fund Management) presented to the Panel. Copies of their presentation were presented to Members.

The presentation covered the following:

- (i) investment philosophy and process
- (ii) Allocation to investment strategies and how they have actively managed the allocations
- (iii) investment performance over last 3 years
- (iv) Management of operational processes
- (v) changes introduced to investment and operational processes to manage the challenges of the last 3 years

The Chair thanked the team from Gottex for presenting to the Panel and noted that the Panel's comments on the manager would feed into the Hedge Fund Committee Workshop on 2 March 2011.

25 MEET THE MANAGER - MAN

Anthony Lawler (Head of Portfolio Management), Jonathan Howard (Senior Portfolio Manager) and Paul Dackombe (Head of Institutional Clients – UK) of MAN presented to the Panel. Copies of their presentation were presented to Members.

The presentation covered the following:

- (i) investment philosophy and process
- (ii) Allocation to investment strategies and how they have actively managed the allocations
- (iii) investment performance over last 3 years
- (iv) Management of operational processes
- (v) changes introduced to investment and operational processes to manage the challenges of the last 3 years

The Chair thanked the team from MAN for presenting to the Panel and noted that the Panel's comments on the manager would feed into the Hedge Fund Committee Workshop on 2 March 2011.

26 ALLOCATION TO PASSIVE UK EQUITIES

The Panel returned to open session.

The Investments Manager presented the report. The Avon Pension Fund Committee had decided at its meeting on 24 September 2010 that the Investment Panel should consider a further switch between the UK and overseas equities. This followed a discussion by the Committee of the sector and stock concentration within the UK equity indices.

At present the allocation within the equity portfolio was 45% UK equities to 55% overseas equities. Any potential switch would be implemented via the passively managed equity portfolios.

The report set out the impact in terms of the risk return profile of the Fund if the allocation to UK equities was incrementally reduced to 30%. There was discussion around the diversification benefits from increasing the allocation to global equities. Global equities increase the volatility from currency; however, the Fund is appointing a manager to hedge currency risk so the Panel concluded that this risk would be adequately managed. JLT advised that the diversification benefit of increasing the allocation to global equities to 70% would be to reduce volatility by around 0.1%. Appendix 1 of the report compared allocation to sectors and the top 10 stocks within the FTSE All Share and MSCI World indices. In particular, the global indices have higher allocation to technology and industrial sectors.

After discussion, the Panel **RESOLVED** to recommend to the Avon Pension Fund Committee that the allocation between UK and global equities should be switched from 45:55 to 30:70.

27 GLOBAL EQUITY TENDER

The Assistant Investments Manager gave a verbal report to Members. A full open tendering exercise had been undertaken. There had been 59 responses, which the evaluation process reduced to 4 following discussions with Officers and the Independent Advisor. Clarification meetings had been held with the 4 managers, three of whom were invited to attend the selection panel on 24 November 2010.

The meeting ended at 5.17 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services