Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 22nd February, 2012, 9.30 am

Members: Councillor Charles Gerrish (Chair), Councillor Gabriel Batt, Councillor Nicholas Coombes, Councillor Mary Blatchford, Andy Riggs (Reserve) (In place of Bill Marshall) and Ann Berresford
Advisors: Tony Earnshaw (Independent Advisor) and Jignesh Sheth (JLT Benefit Solutions)
Guests: Peter Hunt (TT International) and Martin Pluck (TT International)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager) and Matthew Betts (Assistant Investments Manager)

19 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

20 DECLARATIONS OF INTEREST

There were none.

21 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

22 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

24 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

25 MINUTES: 22 NOVEMBER 2011

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

26 REVIEW OF INVESTMENT PERFORMANCE FOR PERIOD ENDING 31 DECEMBER 2011

The Assistant Investments Manager presented the report. He said that the quarter had been positive, with positive returns on most asset classes. Managers were, in aggregate, underperforming the benchmark. Table 1 showed fund investment performance for the past three months, both inclusive and exclusive of currency hedging. Because currency hedging had been in place for less than twelve months, the “relative to benchmark” data excluded it. The impact of currency hedging was addressed in paragraph 4.9 of the report. During the quarter Sterling had strengthened against the Euro in December, but had weakened against the Dollar and the Yen. Overall, the hedging programme had reduced the return for the quarter by 0.1%. The decision to make a tactical bond allocation had been made during the quarter. The monthly spread between UK corporate bonds and UK gilts (now c. 1.49%) had now moved halfway toward the 1.2% trigger level at which the switch would be reversed.

The Chair asked why there had been a decline in bond yields. Mr Sheth replied that this resulted from continuing concerns over the Eurozone crisis, quantitative easing, and the fall in headline inflation. The Investments Manager said that when the tactical switch had been performed, the yield of the corporate bond index had been 4.85%, but was now 4.65%.

In conclusion, the Assistant Investments Manager asked Members to note that the funding level was now 68% (down from 69%in the last quarter), the reason being the fall in the gilt yields.

Mr Sheth commented on the JLT investment performance report (Appendix 2). He said that there had been a strong start to the year. The latest data suggested that there was a sustained, not merely seasonal, rise in employment in the US; the European Central Bank had made liquidity available to banks in the EU, which was the Eurozone equivalent of quantitative easing, and there had been a reduction in borrowing costs for the Spanish and Italian governments. However, it was questionable whether the Greek people would endure the ten years of austerity that had been demanded as the price of the recently-agreed rescue package. Macroeconomic factors were driving markets at the moment, but investment managers could outperform the markets by skill and the anticipation of opportunities. He drew attention to the data for currency instruments given in the table on page 8 and for Record Currency Management on page 9. Noting the performance of Schroders Global Equity Portfolio, he said that JLT believe it is too early to draw firm conclusions; their performance is within expectations given the long term unconstrained nature of the mandate. JLT believe that investments in emerging markets would be likely to do well in 2012. RLAM had done very well. There were no concerns about any of the investment managers.

A Member asked about the bullet point below the table on page 10 stating that the 0.9% underperformance against the benchmark last year was not reflected in the performance graph. She wondered how the Committee would be in a position to judge from the information it received whether or not the new investment strategy was working. The Investments Manager replied that a five-year view might capture this, and that officers were considering how to present this information to Members. JLT explained that the problem with rolling performance (3 year in this case) was that each quarter the result is determined by the net out/under performance of the quarters that leave or enter the period. The Investments Manager agreed with the Member that there was a need to understand how asset allocation had added value. At present 50% of the Fund was in passively managed assets, and should be in line or marginally over the benchmarks over time; there should be an analysis of the impact of actively managed assets. The Chair noted that equities had been performing abnormally in the recent period, and suggested that the aim should be to understand where the Fund would be in normal times. The Head of Business, Finance and Pensions suggested that the main objective was to rebalance the Fund's assets with its liabilities. This could be achieved by an increase in contributions, though the effect of the latest scheme changes was not yet clear, or by raising expectations of the returns that investment managers should achieve through active management. Members suggested that comparisons should be made between the performance of the Avon Pension Fund and other local authority pension funds and lessons learned from their investment strategies. Although such a comparison is informative, the Investments Manager, however, stressed that the main objective was to ensure that the liabilities are funded, and that the performance of the peer group was in this sense not relevant.

The Investments Manager said that next Fund valuation would take place in 2013; planning for this had already commenced. Consideration was being given to how the Committee would be involved in this process. There would also be a review of the investment strategy which would be in parallel to the valuation process.

In reply to a question from a Member the Assistant Investments Manager explained that that the customised benchmark was calculated from the average of the benchmarks of individual investment managers.

RESOLVED to note the information as set out in the report.

27 TT UK EQUITY MANDATE

It was proposed by Councillor Coombes and seconded by Councillor Batt and **RESOLVED** unanimously that

> Having been satisfied that the public interest would be better served by not disclosing relevant information, that, in accordance with the provisions of the section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for this item 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.

Peter Hunt and Martin Pluck of TT International made a presentation to the Panel and answered questions. The Chair thanked them for their presentation.

Following discussion, it was **RESOLVED** to make a recommendation to the Avon Pension Fund Committee at its next meeting to be held on 16 March 2012 as follows:

> Officers will continue to closely monitor the performance of TT and report back to the Panel any issues resulting in significant underperformance

28 WORKPLANS

The workplans (circulated after the publication of the agenda) were noted.

The meeting ended at 11.35 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services