

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Friday, 22nd February, 2013, 9.30 am

Members: Councillor Charles Gerrish (Chair), Councillor Gabriel Batt, Roger Broughton, Councillor Nicholas Coombes, Councillor Mary Blatchford and Ann Berresford

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

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Matthew Clapton (Investments Officer)

29 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

30 DECLARATIONS OF INTEREST

There were none.

31 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

32 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

34 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

35 MINUTES: 14 NOVEMBER 2012

These were approved, subject to the following amendment in Item 27 in the third line of the third paragraph on the second page: "a reasonable term" to be changed to "the minimum term".

36 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2012

Mr Sheth presented the JLT performance monitoring report for the period to 31 December 2012. He began by summarising the market background. The quarter and the year had been positive for equities. Major factors in stabilising the market had been action taken by the European Central Bank and the unequivocal commitment to save the Euro and quantitative easing in the US to support the mortgage market. In addition companies had strong balance sheets, though there were concerns about the level of profits in difficult trading conditions. UK property had fallen by 3-4% reflecting concerns about the UK economic outlook. Government bonds had ended the year at the same levels as they had started it. The Investments Manager pointed out that index-linked bonds had performed very well. Mr Sheth agreed and said that this was related to changes in the methodology for calculating the Retail Prices Index.

The Chair asked about the implications of the fall in the pound against the Euro since the beginning of the year. Mr Sheth said that governments around the world had an incentive to see the exchange rate of their currency fall in order to boost exports; there were concerns about the ability of the UK Government to pay off debt, which would impact on the value of the pound. The Investments Manager added that markets were increasingly optimistic about the outlook for Europe in 1-2 years, but concerned about the UK, which had hitherto benefitted as a safe haven from the turmoil in Europe. She reminded the Panel that the Fund had a currency hedging mechanism in place and the Fund's exposure to currency volatility had been reduced.

Mr Sheth drew attention to the table on page 7 of the report (agenda page 21), which set out the Strategy Assumed Return and 3-year Index Return for each asset class. Equities had returned less than assumed, but there had been strong returns from bonds. The performance of overseas fixed interest had been mixed; different countries had performed differently. The Fund of Hedge Funds had performed well below the assumed return; hedge funds had reduced their level of risk. A Member suggested that hedge funds may have performed less well because they had been distracted by corporate activity. The Investments Manager noted that some hedge funds took positions based on strong views of where the market was going. This has led to strong performance by Signet, but Stenham had performed less well. She suggested it would be interesting to probe Man's views on the market and their strategy.

Mr Sheth said that for bonds the year to date had been a reasonably good one. He then referred to the graphs for aggregate manager performance on page 11 of the report (agenda page 25) and noted the strong performances of Jupiter and RLAM over three years, though RLAM had underperformed slightly in the most recent period. RLAM invests in bonds with lower credit ratings, which the market might see as higher risk.

A Member suggested that the Fund needed to establish a process for deciding when to disinvest from an investment manager. The Investments Manager responded that consideration was being given to quarterly monitoring of managers. She felt, however, that it would not be sensible to have a single process that was suitable for every manager; the difference in the mandates had to be taken into account. She felt that managers should be reviewed case by case, and given time, perhaps a year, to show whether they could improve performance. The aim was to meet each manager at least once a year and it was always possible to prepare a detailed report for the Panel if any manager was causing significant concern. The Member

suggested that managers could be monitored by a traffic-lights system, with red indicating it was time to get rid of them and amber for two consecutive quarters indicating that a meeting with them was needed. The Independent Advisor suggested that the Panel needed to take account of more than just a manager's statistics; it should consider how much confidence it had in them and whether what they said made sense.

Mr Sheth drew Members' attention to the table on agenda page 26, which gave the 3-year performance against target for all the Fund's managers. He then commented on the performance of the individual managers. The Investments Manager suggested that the performance of Stenham, who were avoiding higher-risk investments, should be monitored.

The Chair thanked Mr Sheth for his informative report.

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

37 WORKPLAN

The Investments Manager presented the report. The workplan will be updated with projects arising from the Committee's strategic investment review, which would probably occupy the Panel's next two meetings. She said that a rota also had to be worked out for meetings with the Fund's external investment managers.

RESOLVED to recommend the workplan to the Committee.

Following the conclusion of the business of the public meeting, a private meeting was held with two of the Fund's external investment managers.

The meeting ended at 10.29 am

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services