

Bath & North East Somerset Council

MEETING:	Avon Pension Fund Investment Panel	
MEETING DATE:	17 MAY 2012	AGENDA ITEM NUMBER
TITLE:	Review Of Investment Performance For Periods Ending 31 Mar 2012	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report Exempt Appendix 3 – Summary of Investment Panel Meeting with Investment Managers		

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Investment Panel on routine strategic areas concerning the Fund's investments.

1.2 This report contains performance statistics for periods ending 31 March 2012.

1.3 The main body of the report comprises the following sections:

Section 4. Investment Performance: A - Fund, B - Investment Managers.

Section 5. Investment Strategy

Section 6. Funding Level Update

2 RECOMMENDATION

That the Investment Panel:

2.1 Notes the information as set out in the report.

2.2 Identifies issues to be notified to the Committee.

3 FINANCIAL IMPLICATIONS

- 3.1 The returns achieved by the Fund for the three years commencing 1 April 2010 will impact the next triennial valuation which will be calculated as at 31 March 2013. Section 6 of this report discusses the trends in the Fund's liabilities and the funding level.

4 INVESTMENT PERFORMANCE

- 4.1 JLT's report in Appendix 2 provides a full commentary on the performance of the fund (pages 10 to 15), the investment managers (pages 16 to 36) and a commentary on investment markets (pages 5 to 7). In the section on the Fund (page 10), three year rolling returns are included to provide a longer term perspective.

A – Fund Performance

- 4.2 It is estimated the Fund's assets increased by £133m (c.+5%) in the quarter, giving an estimated value for the investment Fund of £2,756m at 31 March 2012. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.
- 4.3 Please note that due to the early scheduling of this meeting, full data was not available at the time of drafting. Therefore the usual aggregate fund level benchmark analysis and performance drivers will be provided in the upcoming performance report to Committee.
- 4.4 **Avon Pension Fund:** Quarterly return driven by positive returns from all equity markets, supported by smaller returns from hedge funds and property. Fixed income assets had negative returns in the quarter except for UK corporate bonds.
- 4.5 Since the end of the quarter, global equity markets have been less positive with the FTSE All Share down 0.5% (to 30th April). In contrast, the total return for the Over 15-year Gilt index was c. +0.7% during the same period.

B – Investment Manager Performance

- 4.6 A detailed report on the performance of each investment manager has been produced by JLT – see pages 14 to 32 of Appendix 2. Their report does not identify any new performance issues with the managers.
- 4.7 After reviewing the performance of TT, the Panel had been reassured to some degree and recommended Officers continue to closely monitor TT's performance and report back to the Panel any issues resulting in significant underperformance.
- 4.8 As part of the 'Meet the Managers' programme, the Panel met with 2 of the Fund's Fund of Hedge Fund managers on 19 April 2012. The summary of the Panel's conclusions can be found in exempt appendix 3 of this report.

5 INVESTMENT STRATEGY

- 5.1 JLT’s report did not highlight any strategy issues for consideration.
- 5.2 During the quarter the tactical allocation within the bond portfolio has remained in place. Officers continue to monitor changes in the relative yields to identify when the spread between gilts and corporate bonds reaches the pre-determined trigger at which point the allocation will be reversed.

6 FUNDING LEVEL UPDATE

- 6.1 As at 31 March 2011 the Actuary has estimated that the funding level has improved over the quarter from 66% to 70%, at 31 March 2010 triennial valuation it was 82%. (Note: The revised funding level takes into account benefit payments and contributions received during the period. However, the actuary uses estimates for asset returns and cashflows so the update is only an indication of the trend in the funding level.)
- 6.2 Since the 2010 valuation, the value of the assets has increased by £290m (11%) to £2.75bn, and liabilities increased by £937m (31%) to £3.95bn. As a result the deficit has increased from £552m to £1,190m. Over the last quarter the deficit has narrowed very slightly as gilt yields have risen slightly more than implied inflation, hence the real interest rate is less negative than it was at 31 December 2011.

6.3 Table 2 shows the change in financial assumptions:

Table 2: **Change in Financial Assumptions**

	31 March 2010	31 Dec 2011	31 March 2012
UK Gilt yield (nominal)	4.50%	3.00%	3.40%
Real yield	0.70%	-0.20%	-0.10%
Market Implied RPI p.a.	3.80%	3.20%	3.50%
Inflation adjustment p.a.	0.80%	0.80%	0.80%
CPI Inflation p.a.	3.00%	2.40%	2.70%

6.4 The reduction in the gilt yield from 4.5% at the 2010 valuation to 3.4% at end of March 2012 is the reason why liabilities and the deficit have increased so significantly. Furthermore, implied inflation has remained stubbornly high given the current low gilt yields and, as a result, real yields remain negative. The latest “quantitative easing” announced in February should keep nominal gilts yields at depressed levels for the immediate future. ***It should however be noted that this is just a snapshot of the funding level at a particular point in time.***

7 RISK MANAGEMENT

7.1 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 return of the strategic

benchmark and the performance of the investment managers. An 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.

8 EQUALITIES

8.1 This report is primarily for information only.

9 CONSULTATION

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

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 The issues to consider are contained in the report.

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) 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	