

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 JUNE 2012	AGENDA ITEM NUMBER
TITLE:	STRATEGIC INVESTMENT REVIEW	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: NIL		

1 THE ISSUE

- 1.1 In line with best practice the Fund periodically reviews its strategic policy in order to ensure the investment strategy is aligned with the funding objective. The last review was in 2009, following the 2008 downturn in financial markets.
- 1.2 The Fund has commissioned a strategic review to commence in 4Q12. This report outlines the scope of the review and sets out the provisional timetable for completion.

2 RECOMMENDATION

That the Committee notes:

- 2.1 **The scope of the Strategic Review.**
- 2.2 **The provisional timetable for the review.**

3 FINANCIAL IMPLICATIONS

3.1 There is a provision in the 2012/13 for the costs of the Strategic review and the 2013/14 budget allows for some project work as a result of the review.

4 SCOPE OF REVIEW

4.1 The Fund is confronted by significant challenges, primarily a weak and volatile economic environment and an accelerating maturity profile (which negatively affects cashflow), both of which could impact the ability of the current investment strategy to meet the funding objective.

4.2 In addition the 2013 triennial valuation will commence in 2013. Separate meetings will be arranged to discuss the valuation; however, the actuary will provide input to the Strategic Review as required.

4.3 Therefore the scope of the review will be wide ranging to ensure that the strategy is designed both to meet the long term funding objective but has flexibility within it to protect the Fund value and take advantage of investment opportunities over a shorter time frame. The overriding investment objective will be to generate returns to meet the Fund liabilities with the minimum possible level of risk.

4.4 Therefore the review will cover the following main elements:

- (1) An analysis of the Fund's Liability profile to determine the liability and asset risks, including sensitivity analysis around these risks
- (2) A review of current and potential assets classes, expected return and risk models over differing timescales and economic environments, evaluation of ESG risks (at asset level)
- (3) The Fund's risk "appetite" and how the "risk budget" could be allocated between assets, investment approaches and managers
- (4) Define investment objective in terms of return and risk target and agree revised strategy and investment structure. Agree ongoing monitoring of policy.

5 PROVISIONAL TIMETABLE

5.1 The review process will be implemented via a number of workshops that will provide the information and understanding to agree the final strategy. It is proposed that the final workshop will be in the form of a Special Committee meeting to ensure enough time is allowed for a full Committee debate.

5.2 The timetable is as follows:

- (1) **Workshop 1** – 18 October 2012 covering
 - (i) Background to asset/liability study, asset allocation
 - (ii) Risk decomposition – how do the asset and liability risks affect the funding position
- (2) **Workshop 2** – late November 2012 covering
 - (i) Review assets classes – current and potential, risk and return profiles

- (ii) Discuss risk appetite between assets, approaches to investing (active/passive/specialist), and managers
- (3) **Workshop 3** – Special Committee meeting in late February 2013
- (i) Define investment objective
 - (ii) Agree revised strategic policy
 - (iii) Monitoring of strategic policy

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.

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. The strategic investment policy determines the optimal investment structure given the risk adjusted return that is required to meet the funding requirement. The policy is regularly monitored to ensure the risk of the strategy not delivering as expected is effectively managed.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues being considered 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 - Finance) 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	