Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Thursday, 17th May, 2012, 2.00 pm

Members: Councillor Charles Gerrish (Chair), Ann Berresford, Councillor Mary Blatchford, Councillor Nicholas Coombes and Andy Riggs (In place of Bill Marshall)
Advisors: Tony Earnshaw (Independent Advisor) and John Finch (JLT Investment Consultancy)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager) and Matthew Betts (Assistant Investments Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Gabriel Batt. Andy Riggs substituted for Bill Marshall.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 22 FEBRUARY 2012

The public and exempt minutes for the meeting of the 22 February 2012 were approved as a correct record and signed by the Chair.

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2012

The Assistant Investments Manager highlighted the following issues:

a) The quarterly return had been driven by positive returns from all equity markets, supported by small returns from hedge funds and property. Fixed income assets had negative returns in the quarter, except UK corporate bonds.
b) Monitoring of TT had continued since the previous meeting. Overall their stock selection, including financials and oil and gas, had produced a positive return in the quarter.
c) Meetings had been held with Man and Signet, as reported in exempt appendix 3.
d) The funding level had improved over the quarter from 66% to 70%.
e) The benchmark data was not complete, because the Panel was meeting earlier than usual.
f) There had been a significant downturn in markets since the end of the quarter.

Mr Finch commented on the JLT report in appendix 1. Referring to page 11 of the report, he said that in aggregate managers had done quite well. There was, however, concern about Man's ongoing performance. On the wider economic front, it was fortunate that inflation was not triggering wage inflation. Inflation could have a beneficial effect in reducing debt. In response to questions from Members, Mr Finch and officers stated:

- there was reason to be confident about investments in corporate bonds as although a number of European banks had been downgraded, many companies had strong balance sheets

  the trigger to reverse the tactical bond allocation has not been reached. The spread is at 141% compared to 1.46% at the March committee meeting. Corporate bond yields have not risen and John Finch confirmed that the 1.20% target to reverse the switch was still justified given market conditions.

- Schroders had a low exposure to European banks within its actively managed global equity portfolio.

A Member suggested that the Fund's investment managers were not doing very well at the moment against their benchmarks. Mr Finch replied that Genesis, an unconstrained manager, was performing very strongly, though there was variation among the others. Members agreed that it was unwise to attach too much importance to performance in a single quarter and that performance over a three year period was more informative. A Member noted that most of the Fund's managers had improved over three years, with the exception of Man. It was noted that a meeting would take place with Man shortly.

A Member asked about the impact of active currency hedging. The Investments Manager replied that the hedging ratio against the Euro had increased, which is providing protection against the current weakness in the Euro. Last year the Euro remained strong against expectations and the hedging programme was not profitable.

RESOLVED:

1. To note the information as set out in the report.

That continuing concerns about the performance of Man should be notified to the Avon Pension Fund Committee.

9 OPTIONS FOR REBALANCING POLICY

The Investments Manager introduced this item. She reminded the Panel that at the last meeting of the Avon Pension Fund Committee a Member had been concerned about the suspension of the corporate bonds/equities rebalancing policy, suggesting that it should either be abolished or modified. As a result JLT had proposed a revised policy for rebalancing that is flexible to implement across all market conditions.

Mr Finch introduced the JLT review report, circulated as Appendix 1. He said that the report suggested that wider bandwidths for the switching would result in fewer transactions and hence lower transaction costs in a volatile market. It also suggested that property and the Fund of Hedge Funds might be included in the rebalancing policy Framework.

The Chair said that he wished to understand which officers would be responsible for taking decisions under the policy and how they would arrive at a decision. He asked what would happen if a decision to whether or not to implement the trigger had to be considered when officers were absent on leave. The Head of Business, Finance and Pensions said there would always be cover. Those normally involved in the decision would be the Investments Manager, Assistant Investments Manager, Mr Finch and the Head of Business, Finance and Pensions, or, if he was on holiday, the Strategic Director of Resources. There was a continuous review of market conditions, so that it was unlikely that a possible trigger situation would come entirely out of the blue. The Chair pointed out that one of these key officers could be on holiday for several weeks. The Head of Business, Finance and Pensions replied that if it appeared that a trigger situation could arise during the leave of a key officer, a position would be agreed in advance. The Investments Manager said JLT would always be consulted before a decision was taken. She thought that a pragmatic approach was needed; there had to be a trigger, but one that was too mechanistic could cause problems. The Chair suggested that the recommendations in the report should be amended so that tactical reviews and decisions would be taken by Officers “having consulted the Investment Advisers”. The Head of Business, Finance and Pensions said that it would be absurd to implement any rebalancing policy if there was a complete market collapse. Mr Finch said that the aim was to produce a more flexible policy, but there was no question of removing the Committee’s governance responsibility.

RESOLVED

The Panel recommends that a rebalancing policy is maintained by the Fund, subject to the following amendments:

1. For equities/bonds, introduce a “two-tiered” set of boundaries:

    i) a deviation of between 2% and 5% is subject to a tactical review by the Officers having consulted the Investment Advisers;

    ii) a deviation greater than 5% results in an automated rebalancing back to at least +/- 2% weighting as a default. An additional tactical decision is then taken by the Officers supported by the Fund's consultants on whether this is fully rebalanced back to the central benchmark allocation or otherwise.

2. For the less liquid assets, introduce a "soft" bandwidth at which the allocation should be reviewed and discussed by the Investment Panel no less than six-monthly:

    i. Property: +/- 5%;
    ii. Fund of Hedge Funds: + 5%.

10 WORKPLANS

The updated workplans were circulated.

RESOLVED to note the workplans.

The meeting ended at 2.59 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services