AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 5th September, 2012, 9.30 am

Members: Councillor Charles Gerrish (Chair), Councillor Gabriel Batt, Councillor Nicholas Coombes, Councillor Mary Blatchford and Ann Berresford
Advisors:
Observer: Roger Broughton
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matthew Betts (Assistant Investments Manager) and John Finch (JLT Investment Consultancy)

11 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

12 DECLARATIONS OF INTEREST

There were none.

13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Tony Earnshaw.

14 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

16 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

17 MINUTES: 17 MAY 2012

The minutes for the meeting of the 17th May 2012 were approved as a correct record and signed by the Chair.

18 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2012

The Assistant Investments Manager highlighted the following issues:

- During the quarter the tactical allocation within the bond portfolio was reversed. In August the spread between gilts and corporate bonds reached the pre-determined trigger point (spread between gilt and corporate bond yields narrows to 120 basis points) for the tactical position to be reversed. Officers subsequently arranged the sale of £80m of corporate bonds to unwind the tactical allocation. Having consulted the Investment Consultant, the proceeds were not re-invested into gilts given that gilt yields were (even) lower than when the tactical position was established and the asset allocation between equities and bonds was nearing the lower band of the rebalancing range. Their advice was to invest the proceeds in global equities (to effect rebalancing policy discussed in section 7). After transaction costs, the tactical allocation benefitted the Fund by £2.4m when compared to the outcome had the monies remained invested in gilts over the period.

- MAN remains under close review as they restructure the portfolio after a period of disappointing performance.

- The Schroder global equity mandate has underperformed over 12 months. Because of the unconstrained nature of the mandate, performance relative to benchmark is expected to be volatile over the short term. Schroder continue to adhere to the approach and philosophy outlined during the tender process. Schroder will be invited to the Panel meeting to be held in 1Q13.

Mr Finch commented that it had been a difficult quarter / last 12 months given the equity markets, recession and austerity measures. He then referred to page 8 of the JLT report (Appendix 2) to highlight the issues in relation to the asset allocation and liability split.

He informed them that based on financial market values, investment returns and cashflows into the Fund, the estimated funding level had slightly decreased over the second quarter of 2012, all else being equal. This was driven by:

- The fall in the reference yield (-0.3%) used to place a value on the liabilities, is expected, all else being equal, to have led to an increase in their value.

- The Fund assets producing a negative absolute return.

A Member asked why there had been better results in Quarter 1 of 2012.

Mr Finch replied that it was due to bond yields going up and inflation going down. He added that yields were currently drifting and believed there would be no significant rise in them over the next 3 – 5 years.

A Member asked what impact the new scheme would have on the next valuation.

The Investments Manager anticipated that there would be some savings made, but that they would be smaller than initially thought as accrued benefits will be protected.

Mr Finch referred to page 16 of the JLT report to show that in aggregate, the managers underperformed the customised benchmark over the quarter and year. He added that six of the Managers / Funds had not met their three year performance targets.

A Member commented that Schroder's performance has been poor, over the short time they have been managing the portfolio.

The Investments Manager advised that the Panel was due to meet with Schroder in the New Year.

A Member asked if Man were actively changing the way in which they manage the portfolio.

The Head of Business, Finance and Pensions replied that they are currently restructuring the portfolio and that the next quarter would be key for them.

A Member commented that currency management had detracted from the performance in the first quarter.

The Investments Manager replied that it would detract when the currency moves in the Fund's favour but there are still hedges in place. The programme is designed to protect the Fund against adverse currency movements.

Mr Finch commented that one manager, Genesis was performing better than expected in the current climate.

The Investment Panel **RESOLVED:**

(i) To note the information as set out in the report.

19 PANEL WORKPLAN

The Investments Manager introduced this item to the Panel. She confirmed that the Panel were due to meet with TT and Partners in November then Schroder and Man in quarter one of 2013.

The Chairman on behalf of the Panel thanked her for this update.

The meeting ended at 10.20 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services