

## Bath & North East Somerset Council

MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	22 FEBRUARY 2013	AGENDA ITEM NUMBER <b>8</b>
TITLE:	Review Of Investment Performance For Periods Ending 31 Dec 2012	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report (shortened version)		

### **1 THE ISSUE**

- 1.1 This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments. This report contains performance statistics for periods ending 31 December 2012.
- 1.2 This report focuses on the performance of the individual investment managers. The full performance report with aggregate fund and benchmark data, investment strategy and funding level analysis will be reported to the Committee meeting on 22 March 2013.

### **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.

### **4 INVESTMENT PERFORMANCE**

#### **A – Fund Performance**

4.1 It is estimated that the Fund's assets increased by £80m (+2.8%) in the quarter, giving a value for the investment Fund of £2,873m at 31 December 2012. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.2 All asset classes posted positive returns during the quarter (except for US equities).

4.3 The Fund's investment return and performance relative to benchmarks is unavailable at the time of publishing. Full performance data will be reported to the Pensions Committee on 22 March 2013.

#### **B – Investment Manager Performance**

4.4 A detailed report on the performance of each investment manager has been produced by JLT – see pages 10 to 35 of Appendix 2.

4.5 Jupiter, Genesis, SSgA, and RLAM are all outperforming their 3 year performance targets, with RLAM achieving significant outperformance.

4.6 TT's performance has improved since changes were made to the team and approach and whilst still short of their 3 year performance target, their 3 year performance measure is continuing to improve. TT's 1 year performance is ahead of target.

4.7 The Schroder global equity mandate has underperformed over 12 months and performance has disappointed since inception. Because of the unconstrained nature of the mandate, performance relative to benchmark is expected to be volatile on a quarterly basis. Schroder continue to adhere to the approach and philosophy outlined during the tender process. Schroder are presenting to the Panel at the meeting on Feb 22 2013.

4.8 Invesco's under-performance this quarter, which follows a large outperformance last quarter, is again largely explained by the timing issue (Invesco measure performance at midday whereas the benchmark measures performance at the end of the day). However, weaker performance over the last 12 months has resulted in the longer term 3 year performance falling just below the performance target.

4.9 JLT identified that the SSgA European fund size has again reduced in size so that the Avon Pension Fund's share is at 90%. Previously concerns were satisfied by SSgA confirming the fund was sustainable even if Avon were the only investor. Officers are due to meet SSgA on 1<sup>st</sup> March and will seek further confirmation this remains the case.

4.10 MAN remains under close review by officers as they restructure the portfolio after a period of disappointing performance. Although there was little impact upon performance during the quarter (as reported by JLT), performance in November

and December was in line with their performance target, and performance since the end of the quarter has shown evidence of improvement albeit over a short period. The Panel are meeting MAN on Feb 22 2013.

- 4.11 In December Stenham announced their intention to focus on their existing client base and not seek to increase institutional asset under management. Officers met with Stenham and will continue to monitor performance, retention of personnel and client servicing activity.

## **5 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING**

- 5.1 There was no change to the investment strategy this quarter. The strategy is currently being reviewed and any changes to the strategy will be considered in a Special Committee meeting in March 2013.
- 5.2 Bond returns have been well ahead of the return assumptions in the investment strategy over 3 years, with property also outperforming the strategic assumptions. Equities are slightly behind the assumptions due to the falling markets in 2011, but are ahead over the last 12 months. Hedge fund returns remain behind the strategic cash plus return assumption.
- 5.3 There was no rebalancing activity undertaken during the quarter. Market movements have resulted in an Equity:Bond allocation of 77.5:22.5 as at 6 Feb 2013. This is within the tactical range for rebalancing. Given the Fund's asset allocation may be subject to change following the strategy review reporting in March 2013, Officers decided not to undertake any rebalancing at this time.

## **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. 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 performance of the investment managers. The 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.

## **7 EQUALITIES**

- 7.1 An equalities impact assessment is not necessary as the report is primarily for information only.

## **8 CONSULTATION**

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

## **9 ISSUES TO CONSIDER IN REACHING THE DECISION**

- 9.1 The issues to consider 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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<b>Background papers</b>	Data supplied by The WM Company
<b>Please contact the report author if you need to access this report in an alternative format</b>	