

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	4 SEPTEMBER 2013	AGENDA ITEM NUMBER 8
TITLE:	Review Of Investment Performance For Periods Ending 30 June 2013	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report (shortened version) Exempt Appendix 3 – RAG Monitoring Summary Report		

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. The report contains performance statistics for periods ending 30 June 2013.
- 1.2 The report focuses on the performance of the individual investment managers. The full performance report with aggregate investment and funding analysis will be reported to the Committee meeting on 27 Sept 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.**

FINANCIAL IMPLICATIONS

2.3 The returns achieved by the Fund for the three years commencing 1 April 2013 will impact the next triennial valuation which will be calculated as at 31 March 2016.

3 INVESTMENT PERFORMANCE

A – Fund Performance

3.1 The Fund’s assets decreased by £36m (c. -1.0%) in the quarter, giving a value for the investment Fund of £3,099m at 30 June 2013. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

3.2 Asset class returns were mixed in the quarter with declines in bond markets, commodities and emerging market debt and equity markets. Developed equity markets performed better with UK equities falling slightly whereas other developed overseas markets posted small positive returns. However, within the quarter, equity markets were particularly negative in June.

3.3 The main driver for the decline in markets was the Fed’s statement that the prolonged period of loose monetary policy was coming to an end. This affected government bond markets the most where bond yields rose (positive for the funding position) and emerging markets where short term investors took profits as higher interest rates are usually a negative for economic growth in these countries.

3.4 The Fund outperformed its benchmark during the quarter by 0.3%. This was due to manager performance; asset allocation marginally detracted as the Fund was overweight equities versus the strategic benchmark. The currency hedging marginally detracted from the fund’s return.

3.5 The longer term performance is as follows:

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (excl. currency hedging)	-0.9%	14.9%	10.4%
Avon Pension Fund (incl. currency hedging)	-1.0%	14.9%	n/a
Strategic Benchmark (no currency hedging)	-1.2%	12.8%	9.5%
<i>(fund excl. currency hedging, relative to benchmark)</i>	<i>(+0.3%)</i>	<i>(+1.8%)</i>	<i>(+0.8%)</i>
<i>(fund incl. currency hedging, relative to benchmark)</i>	<i>(+0.2%)</i>	<i>(+1.8%)</i>	<i>n/a</i>

3.6 The returns over 1 and 3 years are still positive despite the negative return in the latest quarter and the Fund outperformed its benchmark over both timeframes. Over both 1 and 3 year periods both asset allocation and manager performance contributed positively to the outperformance. The currency hedging programme was neutral over 1 year.

3.7 The annualised equity return achieved over the last 3 years is still well ahead of the expected strategic return. The 3 year annualised bond returns are also ahead of expected returns but have fallen since March 2013. Property and hedge fund returns are underperforming the strategic return assumptions.

B – Investment Manager Performance

- 3.8 A detailed report on the performance of each investment manager has been produced by JLT – see pages 15 to 36 of Appendix 2.
- 3.9 Jupiter, Invesco, Genesis, SSgA, RLAM, and Schrodgers Property and Partners are all outperforming their three year performance targets.
- 3.10 Exempt Appendix 3 summarises the latest Performance Monitoring Report used internally to monitor manager performance. The summary report highlights the managers that are rated Amber or Red, detailing the performance and/or organisational issue(s), how they are being monitored and any actions taken by officers and/or the Panel.
- 3.11 In addition to the issues highlighted in the RAG Monitoring summary report, JLT has highlighted that the SSgA European fund size has contracted again so that Avon Pension Fund’s share of the pooled fund has risen to >95%. The Fund holds a similar share of the SSgA Pacific pooled fund. When the issue was last addressed by the Panel in November 2011, the shares of the funds were similar. At that time SSgA confirmed the fund was sustainable even if Avon were the only investor. The size of both funds is slightly higher than when the issue was last reviewed.

4 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

4.1 Changes to the Investment Strategy agreed in March 2013 are in the process of being implemented and progress is as follows:

	Project	Progress
1	DGF Mandates	On track: Tender in progress. Due Diligence w/c 2 September. Appointment decision due w/c 30 September
2	Emerging Market Equity Mandate	On track: Tender process commenced. Closes 10 September Due Diligence w/c 18 November Appointment decision due w/c 2 December
3	Restructuring passive equity portfolio	On track: Conversion to income distributing funds to coincide with funding of DGF and EM mandates
4	Rebalancing bond portfolio	Complete: Strategic allocation between UK gilts and corporate bonds implemented 16 August
5	Infrastructure	On Track: Educational session held 4 September 2013

4.2 There was no rebalancing activity undertaken during the quarter. Market movements have resulted in an Equity:Bond allocation of 79:21 as at 14 August 2013. This is within the tactical range for rebalancing. Officers will incorporate any rebalancing as the new strategy is implemented.

5 RISK MANAGEMENT

5.1 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.

6 EQUALITIES

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

7 CONSULTATION

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

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider are contained in the report.

9 ADVICE SOUGHT

9.1 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.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	Data supplied by The WM Company
Please contact the report author if you need to access this report in an alternative format	