

## Bath & North East Somerset Council

MEETING:	<b>AVON PENSION FUND INVESTMENT PANEL</b>	
MEETING DATE:	<b>15 NOVEMBER 2013</b>	AGENDA ITEM NUMBER <b>8</b>
TITLE:	<b>Review Of Investment Performance For Periods Ending 30 Sept 2013</b>	
WARD:	<b>ALL</b>	
<b>AN OPEN PUBLIC ITEM</b>		
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 Exempt Appendix 4 – Update on Signet portfolio Exempt Appendix 5 – Diversified Growth Fund Update		

### **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 September 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 13 December 2013.

### **2 RECOMMENDATION**

**That the Investment Panel:**

- 2.1 **Notes the information as set out in the report.**
- 2.2 **Identifies any 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 increased by £71m (c. 2.3%) in the quarter, giving a value for the investment Fund of £3,170m at 30 September 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 small declines in US and Emerging Market equities. European and UK equity markets performed well over the quarter whilst Gilts and corporate bonds produced modest quarterly gains.

3.3 The main driver for the decline in US and Emerging markets was the Fed's decision to further delay the tapering of quantitative easing with the uncertainty that remains and weak currencies struggling in Emerging Markets. UK and European equity markets were driven by improving GDP data with the Eurozone as a whole emerging from an 18 month recession in Q2.

3.4 The Fund's overall performance relative to benchmarks is unavailable at the time of publishing. Full performance data will be reported to the Pensions Committee on 13 December 2013.

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

3.5 A detailed report on the performance of each investment manager has been produced by JLT – see pages 15 to 35 of Appendix 2.

3.6 Jupiter, Invesco, Genesis, SSgA Pacific, RLAM, Schroders Property and Partners are all outperforming their three year performance targets.

3.7 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.

3.8 The RAG report highlights the following corporate changes since the last meeting:

- (1) The portfolio manager of the Schroder global equity portfolio is has left Schroders. Her replacement will present to the Panel in the workshop following the meeting.
- (2) Officers have met with Signet following the acquisition of Signet's fund of hedge fund business by Morgan Creek. An update is provided at Exempt Appendix 4.

In addition to the issues highlighted in the RAG Monitoring summary report, JLT has highlighted that although the SSgA European fund size has increased in size over the quarter; Avon Pension Fund remains practically the only investor. The Fund's share of the SSgA Pacific pooled fund is over c.97%. 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: Selection made. Implementation in process with selected managers. Please see Exempt Appendix 5.
2	Emerging Market Equity Mandate	On track: Tender submissions being evaluated. 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: Background paper for discussion at this meeting. Committee to be updated at Dec meeting.

4.2 In consultation with the Investment Consultant, Officers undertook rebalancing during the Quarter to reduce the overweight to equities as the allocation was approaching the automatic trigger point for rebalancing. The latest Equity:Bond allocation is 77.6 : 22.4 as at 30 October 2013. This remains within the tactical range for rebalancing. Officers will continue to incorporate any rebalancing considerations 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 – Business Support) have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
<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>	