

## Bath & North East Somerset Council

MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	26 FEBRUARY 2014	AGENDA ITEM NUMBER <b>8</b>
TITLE:	Review Of Investment Performance For Periods Ending 31 Dec 2013	
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) <b>Exempt</b> Appendix 3 – RAG Monitoring Summary Report <b>Exempt</b> Appendix 4 – Emerging Markets Equity 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 31 December 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 28 March 2014.

### 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 £129m (c. 4%) in the quarter, giving a value for the investment Fund of £3,299m at 31 December 2013. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

3.2 The majority of equity markets were positive over the quarter led by the US and other western developed markets, whilst Asian markets were relatively flat. The exception was emerging markets equities which experienced a small fall. In contrast, gilts and corporate bonds produced small negative returns as bond yields rose over the quarter.

3.3 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 28 March 2014.

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

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

3.5 The Fund invested in two new Diversified Growth managers during the quarter, Barings and Pymfor, and was fully invested by the end of November. They will be included in JLT's performance report at Appendix 2 from next quarter.

3.6 Schroder global equity presented to the Panel in Nov 2013 following departure of the fund manager. The Panel were reassured that the recent changes should bring about improved performance for the mandate but wished to continue monitoring the portfolio closely to ensure the team changes are managed well. A +0.9% outperformance of the index this quarter has resulted in Schroder's outperformance against their 1 year target improving (1.7% outperformance versus 2% p.a. target).

3.7 Jupiter, Invesco, Genesis, SSgA, RLAM, Schrodgers Property and Partners are all outperforming their three year performance targets.

3.8 State Street UK has been fined £23m by the Financial Conduct Authority (FCA) for failings in their transitions management business. This is a separate business from their asset management business State Street Global Advisors (SSgA) who manage 2 mandates on behalf of the Fund. The service the Fund received was in no way affected by the failings in the transition management business.

3.9 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.

3.10 The RAG report at Exempt Appendix 3 highlights the following corporate changes since the last meeting:

- (1) In December Gottex announced a merger with EIM (a \$3bn FoHF manager with relatively similar business with similar global footprint). The rationale is to achieve cost efficiencies and scale by merging 2 similar businesses. Gottex will present to the Panel in a Workshop following the formal meeting.

**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	Complete: Investments made during the quarter. Focus is now on setting up reporting and monitoring.
2	Emerging Market Equity Mandate	Complete: Selection decision made w/c 2 December 2013. See Exempt Appendix 4. Investments made in January 2014. Focus is now on setting up reporting and monitoring.
3	Restructuring passive equity portfolio	Complete: Converted to income distributing funds for a number of the passive equity funds managed by BlackRock.
4	Rebalancing bond portfolio	Complete: Strategic allocation between UK gilts and corporate bonds implemented 16 August
5	Infrastructure	On Track: Paper with update on tender process for discussion at this meeting.

4.2 Following the rebalancing undertaken in October 2013 to reduce the overweight to equities (as the allocation was approaching the automatic trigger point for rebalancing), there has been no further rebalancing. The latest Equity:Bond allocation is 77.7 : 22.3 as at 5 February 2014. 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.

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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>	