Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 26th February, 2014, 9.30 am

Members: Councillor Charles Gerrish (Chair), Ann Berresford, Councillor Mary Blatchford, Roger Broughton and Councillor Ian Gilchrist
Advisors: Tony Earnshaw (Independent Advisor), John Finch (JLT)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Matthew Clapton (Investments Officer) and Gemma Scane (Assistant Management Accountant - Investments and Custody)

44 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

45 DECLARATIONS OF INTEREST

There were none.

46 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Gabriel Batt.

47 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

49 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

50 MINUTES: 15 NOVEMBER 2013

The public and exempt minutes for the meeting of 15 November 2013 were approved as a correct record, subject to the amendment of the attendance list to indicate that Ann Berresford was present at the meeting.

51 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DEC 2013

The Assistant Investments Manager presented the report. He highlighted the following:

1. Since the last meeting the Fund had invested in three new managers, two of which would be included in the regular reports from the next meeting and the third new manager from the following quarter.

2. There were five managers rated as amber in the monitoring report, three of whom were continuing to improve quite strongly. Schroders Global Equity, whom the Panel are due to meet in September, were approaching their 1-year target. Signet had worsened slightly. Gottex were merging with EIM. The Panel are meeting both Signet and Gottex after today's formal meeting.

3. Only one element of the investment strategy changes remained to be implemented, namely the establishment of the infrastructure portfolio. A paper about the tendering process for this appeared later on today's agenda.

Mr Finch referred to pages 9 and 10 of the JLT performance report and drew attention to the fact that only Partners had underperformed in the quarter, but they had made new investments in this period, and he did not feel there should be concern about them. Genesis had performed extremely well. Over the past three years only three managers had underperformed. TT International had improved significantly over the year.

A Member asked about the hedge funds, all of which had failed to meet their three-year performance targets. Mr Finch thought this was not a cause for alarm, but should be kept under review. The hedge fund industry has had to do a good deal of restructuring since 2008. The Assistants Investments Manager pointed out that there were significant differences between hedge funds in terms of investment strategies and that they needed to be considered individually.

A Member noted that just as the Fund had selected a manager for its additional emerging markets mandate, fears were being expressed about the future performance of these markets. Mr Finch said that while the Fed's winding down of quantitative easing had had some impact on emerging markets, he now thought prices were pretty much at the bottom and that he expected to see strong growth in the longer term; he had no concerns about the Fund's exposure for the longer term.

A Member asked about the impact of currency hedging. The Investments Manager replied that the currency hedges had partially offset the local currency losses.. The Chair suggested that net returns of currency hedging should be given in the performance report. Mr Finch said that this would be done. The Investments Manager reminded Members that the three-year review of currency hedging would begin in September.

In response to a question from a Member, the Assistant Investments Manager said that the allocations listed on page 6 of the JLT report had changed since December, as funds had been moved since then from developed markets into emerging markets. Overall the Fund was still overweight in equities which would be addressed when investing into Infrastructure later in 2014.

A Member noted that there was no allocation for cash. The Investments Manager replied that cash was used as a working fund for various purposes, including the payment of benefits, and was generally very low.

RESOLVED:

1. To note the report.

2. That there were no issues to be notified to the Committee.

52 INFRASTRUCTURE TENDER PROCESS

The Investments Manager presented the report. She reminded Members that the Infrastructure Policy Framework had been agreed at the December meeting of the full Committee. This report set out the tender and selection process in more detail. Section 7 specified the tender evaluation criteria. The tender process for Infrastructure resembled that for hedge funds, in that that the number and nature of the responses could not be predicted at this stage. It was planned that officers would work in close partnership with JLT in the due diligence process.

Mr Finch said that it was essential to know where and when the prospective managers would place investments. He was aware of some 116 infrastructure investment managers raising funds, of whom up to 80 might respond to the Fund's tender. In order to keep fees down, the Fund was cooperating with two other local authorities in information gathering. The Chair suggested that the number of applicants might be reduced, if it was made clear to them that the Fund was not ready to begin investing immediately. Mr Finch, however, replied that the Fund should be looking for managers ready to invest, otherwise it could be paying fees on money not drawn down by the manager and on which no return was being earned. The benefit of diversification through this new asset class would also be lost. He said that it was important to find some means of comparing the prospective infrastructure managers' fees on a common basis. It was not important whether they invested only locally or globally, but it was important to know how widely they had cast their net. A Member raised the possibility of the Fund investing in a manager who was not chosen to fund the project the infrastructure fund was hoping to invest in. Mr Finch said that managers' track record in securing deals was a factor that should be taken into account in the selection process.

The Investments Manager asked Members for their views on how the selection process should be structured. She felt that a one-day selection based on one-hour presentations would be inadequate. The due diligence process would probably take one or two days, so that by the time the shortlist was prepared officers and JLT would know the applicants very well. These considerations might lead the Panel to prefer option 6.5(2), a selection panel comprising officers, JLT and those Panel Members wishing to attend, rather than option 6.5(1), a meeting of the full Panel.

The Chair felt that the complexity of the evaluation process required a wide range of expertise and that Members of the Panel had individual strengths they could contribute. He therefore felt that the selection should be done by the full Panel. He also felt that all applicants should be seen on the same day, so that comparisons could be made when all the details were still fresh in the mind. He suggested that the selection meeting should be preceded by a half-day briefing session. Other Members agreed with him. The Chair and Councillor Gilchrist pointed out that they would not be available on any of the suggested dates for the selection meeting. It was agreed that officers should propose new dates for the meetings.

RESOLVED

1. To agree the selection process and evaluation criteria for the Infrastructure tender process.

2. To agree that the selection meeting should be a meeting of the full Panel and should take place on dates in June/July to be arranged.

53 HEDGE FUND REVIEW - SCOPE

The Investments Manger presented the report. She reminded Members that 5% of the Fund was allocated to Hedge Funds in the new investment strategy with a strategic range of 0%-7.5%. At the June meeting the Panel would review the current allocation in response to a mixed performance within the hedge fund portfolio and to changes within the hedge fund managers and the hedge fund industry as a whole. Section 5 of the report set out the objectives and scope of the review.

RESOLVED to agree the scope for the Review of Hedge Fund Investments as set out in section 5.

54 WORKPLAN

RESOLVED

1. To note the workplan to be included in the Committee papers.

2. To note the proposed manager meeting schedule.

The meeting ended at Time Not Specified

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services