

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	4 JUNE 2014	AGENDA ITEM NUMBER 8
TITLE:	Review Of Investment Performance For Periods Ending 31 March 2014	
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 31 March 2014.
- 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 June 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 £26m (c. 0.8%) in the quarter, giving a value for the investment Fund of £3,325m at 31 March 2014. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.
- 3.2 Equity markets were mixed over the quarter with positive returns led by Europe and the US; Asian markets were marginally positive whilst the UK and Emerging Markets experienced a small fall. Japan was the worst performing equity market in the quarter. Gilts and corporate bonds produced strong positive returns as bond yields fell 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 27 June 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 37 of Appendix 2.
- 3.5 The Fund's investment in the new Emerging Markets Equity mandate (managed by Unigestion) comprising 5% of fund assets was completed by the end of January. Unigestion will be included in JLT's performance report at Appendix 2 from next quarter.
- 3.6 Signet and Gottex (part of the Hedge Fund allocation) presented to the Panel in Feb 2014 in advance of the Hedge Fund Review in June (see Exempt Appendix 3 for further details).
- i. The Panel were satisfied with the rationale for the acquisition of Signet by Morgan Creek and subsequent organisational changes. The Panel noted performance has been hindered by the illiquid portfolio and Officers will continue to monitor performance closely and re-call Signet should performance not improve.
  - ii. The Panel re-assured by continued improvement in performance from Gottex, Officers will continue to monitor the merger and potential impact on employees and products.
- 3.7 Invesco was fined £18.6m by the Financial Conduct Authority (FCA) in April for breaches in their risk systems. The issue has not affected the Fund's investment in the Global ex UK Enhanced Indexation Fund. Officers are due to meet with Invesco in Q2.
- 3.8 Jupiter, Invesco, Genesis, SSgA, BlackRock, RLAM and Schrodgers Property are all outperforming their three year performance targets. TT and Stenham are

marginally behind target whilst Signet, Gottex and Schroder global equity are all underperforming their respective targets.

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. Following changes made over the previous quarters, 2 managers previously rated amber have achieved green rating this quarter and are therefore no longer included in Exempt Appendix 3:

- i. TT's performance over the last 12 months (+4.7% versus the index) and 3 years annualised (+2.8%) has improved such that it is now only marginally below the outperformance target of +3-4% p.a. over 3 years and within an acceptable range to be rated green.
- ii. Stenham's significant outperformance since December 2012 has resulted in a 3 year performance of -0.3% below target which again achieves a green rating.

#### 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 Q4 2013. Focus is now on monitoring.
2	Emerging Market Equity Mandate	Complete: Investment made during Q1 2014. Focus is now on monitoring and will be included in JLT's report next quarter.
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: Evaluation of tender responses underway. Selection meeting planned for early July.

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 77.9 : 22.1 as at 21 May 2014. In April/May the Fund received some lump sum deficit contribution payments from some employers, part of this money was invested (Royal London £23m, Pyrford £12m and Barings £15m) to maintain

allocation targets and the remainder held in cash, the effect of this slightly reduced the Equity:Bond ratio and therefore 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>	