

# Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	10 December 2010	AGENDA ITEM NUMBER
TITLE:	RECOMMENDATIONS FROM THE INVESTMENT PANEL	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report: Nil		

## 1 THE ISSUE

- 1.1 The Investment Panel is responsible for exploring investment issues including the investment management arrangements and the performance of the investment managers, and making recommendations to the Committee.
- 1.2 The Panel has held one meeting since the September 2010 committee meeting and the recommendations from the Panel are set out in this report. **The minutes of the Investment Panel meetings provide a record of the Panel's debate before reaching any recommendations. These can be found in an earlier agenda item.**
- 1.3 At its meeting on 24 September 2010 the Committee requested the Panel consider further the allocation between UK and overseas equities. This was a result of the discussion regarding the Fund's investment in BP and the risk arising from sector and stock weightings within the UK equity index. The Panel's discussion and recommendations are set out in this report.

## 2 RECOMMENDATION

**That the Committee agrees the recommendation from the Investment Panel to:**

- 2.1 **reduce the allocation to UK equities from 45% to 30% of the equity portfolio and increase the allocation to overseas equities from 55% to 70%;**
- 2.2 **implement the switch within the passively managed equity portfolio.**

### **3 FINANCIAL IMPLICATIONS**

3.1 There is no impact on investment management fees as the proposed switch would be implemented within the Fund's passive portfolio managed by BlackRock.

### **4 BACKGROUND TO THE RECOMMENDATION**

4.1 At the Committee meeting on 24 September 2010, the Investment Panel were asked to reconsider the allocation between UK and overseas equities that are managed on a passive basis. This was as a result of the discussion about the Fund's exposure to BP and the more general risks associated with the sector and stock concentration within the UK equity index.

4.2 The Panel have discussed this issue in detail in previous meetings and have received reports from JLT setting out the issues in the past. Therefore the debate focussed on (i) the comparison of sector and stock weightings between the UK and global indices and (ii) the implications on the Fund's risk/return profile of incremental switches from 45:55 UK:Overseas equities to 30:70 ratio.

4.3 The Panel discussed the following:

(1) JLT advise that the long term returns from UK and overseas equities are assumed to be similar at c. 8.5% p.a. having taken into account long term historical evidence. Therefore any switch between UK and overseas equities should not effect the overall return potential of the Fund.

(2) The main risk of overseas equities is the increase in volatility from currency exposure. The absolute volatility of the current allocation of 45:55 UK:Overseas is 16.0% which rises to 16.2% at an allocation of 30:70; however, the Fund will be hedging its currency exposure in the future therefore this risk is being managed.

(3) Having stripped out the currency risk, JLT advise that absolute volatility would be reduced by around 0.1%-0.15%. This is because the portfolio would benefit from greater diversification of holdings within the portfolio. The UK index is more concentrated by sector and at the stock level than the global indices. For example, the top 10 stocks in the FTSE All Share Index account for 38% of the capitalisation of the index compared to 9% for the MSCI World index. Technology and industrials account for less than 10% of the FTSE All Share Index but account for around 21% of the MSCI World index.

4.4 The Panel concluded that the allocation to UK equities should be reduced from 45% to 30% of the equity portfolio and the allocation to global equities be increased from 55% to 70%, as the scale of the switch is sufficient to reduce absolute volatility.

4.5 The Panel agreed that the switch should be implemented via the Fund's passive portfolio. This would not alter the monies allocated to any one manager.

### **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. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in

place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

## **6 EQUALITIES**

6.1 An equalities impact assessment is not necessary.

## **7 CONSULTATION**

7.1 N/a

## **8 ISSUES TO CONSIDER IN REACHING THE DECISION**

8.1 The issues being considered are contained in the report.

## **9 ADVICE SOUGHT**

9.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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<b>Background papers</b>	JLT reports prepared for Investment Panel meetings Investment Panel reports and minutes.