

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	4 MARCH 2015	AGENDA ITEM NUMBER 8
TITLE:	Review Of Investment Performance For Periods Ending 31 December 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 December 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 March 2015.

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 £102m (return of c. 3.1%) in the quarter, giving a value for the investment Fund of £3,642m at 31 December 2014. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

3.2 All Equity markets achieved positive returns over the quarter with the exception of the Europe (-1.4%) and Frontier markets (-9.0%) whilst the USA (+8.9%) had the highest returns. Bond yields again fell over the quarter leading to strong positive returns from Gilts (+11.2%) and Corporate Bonds (+6.7%).

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 March 2015.

B – Investment Manager Performance

3.4 A detailed report on the performance of each investment manager has been produced by JLT – see pages 13 to 37 of Appendix 2.

3.5 Jupiter (UK equity SRI mandate) and TT (UK equity mandate) presented to the Panel in November 2014 and there were no issues identified by the Panel.

3.6 Jupiter, TT, Invesco, SSgA (Europe and Pacific), Genesis, Stenham, Gottex, BlackRock, RLAM and Schroders Property are all outperforming their three year performance targets. TT are marginally behind target (but retain a Green rating) whilst Signet and Schroder global equity are underperforming their respective 3 year 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. This quarter 2 managers remain on an amber rating, Signet and Schroder global equity. There is an update on each of these in Exempt Appendix 3.

3.8 The reported performance data of the Partners property portfolio as reported by WM continues to be volatile. The performance reported on the internal rate of return (IRR) basis is in line with expectations for the mandate.

(1) As previously reported, officers are clarifying with WM (the Fund's independent performance provider) and Partners, to reconcile the difference between the basis used by WM and Partners. WM use a time weighted return, compared with Partners' reporting of internal rates of return (IRRs). For the funds in the portfolio the IRRs (reported in appendix 2, page 31) more accurately reflect how the investments are performing and whether they are in line with expectations.

- (2) Furthermore, the Partners mandate uses the IPD UK Index as its benchmark as there was no quarterly global direct property index when the mandate was put in place. A global index is now available which may be more appropriate to use. It should be noted that the characteristics of the Partners' mandate are different from the available indices as the indices reflect 'core' property investments rather than the value-add approach over time that Partners take.

These two issues will be considered and taken up with the Fund's new investment consultant and conclusions will be reported back to Panel.

- 3.9 The Panel are receiving presentations from Schroder Global Equity and Partners at a Workshop on 4 March.

4 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

- 4.1 Diversified Growth Mandate: Standard Life GARS fund was selected to manage the Fund's second diversified growth mandate, replacing Barings. The funds were invested with Standard Life in early February.
- 4.2 Fund of Hedge Funds: Following a review of the Fund of Hedge Funds portfolio, the Fund is currently tendering for a manager to manage a bespoke portfolio of hedge fund investments.
- 4.3 Infrastructure: The Fund's investments in infrastructure are awaiting drawdown by the selected manager IFM who anticipate the funds being drawn down over the next 18 months to 2 years.
- 4.4 Rebalancing: Following the investments in Standard Life, the Equity (inc DGFs):Bond allocation is estimated to be 76.3: 23.7. This remains within the tactical range for rebalancing.

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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Background papers	Data supplied by The WM Company
Please contact the report author if you need to access this report in an alternative format	