

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	11 SEPTEMBER 2015	AGENDA ITEM NUMBER
TITLE:	Review Of Investment Performance For Periods Ending 30 June 2015	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer performance monitoring report (shortened version) Exempt Appendix 3 – RAG Monitoring Summary Report Appendix 4 – Partners Overseas Property Mandate – Performance Reporting		

## **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 2015 and 30 June 2015.
- 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 25 September 2015.

## **2 RECOMMENDATION**

**That the Investment Panel:**

- 2.1 **Notes the information as set out in the reports.**
- 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 £187m (return of c. 5.1%) in the quarter ending 31 March 2015 giving a value for the investment Fund of £3,829m. In the quarter ending 30 June 2015 the Fund's assets decreased by £99m (return of c.-2.5%) giving a value for the investment Fund of £3,730m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.
- 3.2 All Equity markets produced negative returns over the quarter in Sterling terms. Asia Pacific was the worst performing region (-8%) whilst the UK All Share Index fell by -1.6%. Bond yields rose sharply across all maturities leading to negative returns from Gilts (-6.3%) and Corporate Bonds (-3.9%).
- 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 25 September 2015.

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

- 3.4 A detailed report on the performance of each investment manager has been produced by Mercer – see pages 25 to 44 of Appendix 2.
- 3.5 Schroder (Global Equity mandate) and Partners (Global Property mandate) presented to the Panel in March 2015 and there were no issues identified by the Panel. Officers continue to monitor Schroder performance.
- 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. 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. It should be noted that the Fund has terminated its mandate with Signet.
- 3.8 During August emerging markets fell substantially in part due to concerns over Chinese growth and the sharp decline in Chinese markets. These concerns also substantially affected developed markets with both market falls and increased volatility. Officers held a conference call with Genesis to discuss their recent performance and outlook for Emerging Markets / China. Genesis remain positive on the longer term outlook for China as it moves away from an export led economy and the recent fall in share prices is beginning to create investment opportunities.

- 3.9 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. Officers have reconciled the two different ways of measuring returns providing confidence in returns reported by both WM and Partners. Appendix 4 explains the challenges of measuring such portfolios and the work done by Officers to evaluate performance. It also proposes changes to the way Partners return is measured and reported in the future (as advised by Mercer). The aim is to integrate the various measures to provide a more comprehensive view of performance whilst accepting the challenges of measuring and reporting performance of a mandate comprising of closed ended funds. Mercer and Officers are satisfied that the performance of the Partners portfolio is in line with long term expectations.

## **4 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING**

- 4.1 Fund of Hedge Funds: JPMorgan was selected to manage the Fund's allocation to Hedge Funds via a bespoke arrangement. The first tranche payment was invested with JPMorgan on 1 August 2015. Further investments will be made as the proceeds from the terminating mandates are realised.
- 4.2 The Fund has received a full redemption payment from Stenham. The investments in Signet and Gottex are being realised in tranches with the first tranche payment from Signet already received.
- 4.3 Infrastructure: The Fund's investments in infrastructure are awaiting drawdown by the manager IFM who anticipate the first tranche of funds being drawn down before the end of 2015.
- 4.4 Rebalancing: Following the initial investment in JPMorgan, the Equity (inc DGFs):Bond allocation is estimated to be 75.2: 24.8. This remains within the acceptable range requiring no action.

## **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.

<b>Contact person</b>	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
<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>	