

# Bath & North East Somerset Council

MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>11 DECEMBER 2015</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>INVESTMENT PANEL ACTIVITY</b>	
WARD:	<b>ALL</b>	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report: Appendix 1 – Minutes from Investment Panel meeting held 18 November 2015 Appendix 2 – Mercer report: Bond Assets Reorganisation Appendix 3A: Revised Rebalancing Policy, Appendix 3B: Current Rebalancing Policy EXEMPT Appendix 4 – Summaries of Investment Panel meetings with Managers		

## **1 THE ISSUE**

- 1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.
- 1.2 The Panel has held one formal meeting since the September 2015 committee meeting, on 18 November 2015. The draft minutes of the Investment Panel meeting provides a record of the Panel's debate before reaching any decisions or recommendations and can be found in Appendix 1.
- 1.3 The Panel also held a Meet the Managers Workshop on 9 November 2015, a summary of the meetings is at Exempt Appendix 4.
- 1.4 The recommendations and decisions arising from these meetings are set out in paragraphs 4.2 and 4.3.

## **2 RECOMMENDATION**

**That the Committee:**

### **2.1 On managing liabilities**

- (1) **Agrees the recommendation to increase the benchmark allocation and allocation range to Index Linked Gilts as at 4.2 a) to better match liabilities.**
- (2) **Notes the decision by the Panel to prepare a framework to more effectively use the investment assets to match the liabilities, as set out in 4.2 b).**

- 2.2 Agrees the recommendation to adopt the proposed rebalancing policy as at 4.3 a).**

### 3 FINANCIAL IMPLICATIONS

- 3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.
- 3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

### 4 RECOMMENDATIONS AND DECISIONS

- 4.1 The following decisions and recommendations were made by the Panel at the Investment Panel meeting on 18 November 2015:

#### 4.2 Managing Liabilities:

The Committee requested that the Panel review the range of investment options available to more effectively manage liability risks, how they may be implemented and the potential cost. Having considered a report and additional analysis from Mercer, the Panel agreed the following:

a) Recommendation for agreement – interim step.

Increase the benchmark allocation to Index Linked Gilts (ILG) above the current permissible range to allow the current allocations to gilts and overseas bonds to be allocated to ILG. The benchmark allocations for Fixed Interest Gilts and Other Bonds will therefore be zero. This will require the allocation range for ILG to change from 3-10% to 9-15%. The allocation ranges for Fixed Interest Gilts and Other Bonds are unchanged.

*Rationale – Increasing the allocation to index linked gilts will improve the matching characteristics of the stabilising assets against the liabilities with no reduction in the expected return on assets. Please see Appendix 2 for a full explanation provided by Mercer. This interim step is beneficial regardless of whether the full proposal (referred to below in (b) and still to be developed) is agreed or not.*

b) Decision for noting – to develop a full proposal to more effectively match liabilities.

That, in principle, the Fund should consider putting a framework in place to more effectively use the investment assets to match the liabilities, and to prepare the proposed framework for recommendation to the Committee (including costs).

It is planned that the Panel will agree a framework for consideration by Committee in June or September 2016 (so that it can be considered as part of the 2016 valuation).

#### 4.3 Review of Rebalancing Policy:

The Fund's policy is to rebalance the investment portfolio back to the target asset allocations after market movements cause allocations to vary by a certain amount. Rebalancing is important as it ensures the Fund is invested in line with the strategic allocation. Rebalancing can also add value over time as it forces the selling of relatively expensive assets and the purchasing of relatively cheap assets.

The Panel reviewed the Fund's rebalancing policy to ensure it remains appropriate. Having considered a report produced by Mercer the Panel made the following recommendations to revise the policy:

- a) Recommendation for agreement - That the Fund should adopt the revised rebalancing policy at Appendix 3A (the current policy is also included as Appendix 3B for reference).

*Rationale – The revisions to the policy seek to:*

- *Improve the efficiency of the rebalancing policy by having narrower ranges within which asset allocations are allowed to fluctuate.*
- *Provide for a more robust decision making framework for making use of the flexibility outside of the narrow ranges (but within the ranges permitted in the Fund's Statement of Investment Principles) based on whether an asset class is deemed unattractive or attractive by the investment consultant.*
- *Confirm clearer delegations to Panel, Officers and Consultant to implement the policy.*

*Committee Delegation – Committee decide the rebalancing policy and delegate the implementation of the policy to the Panel who in turn delegate it to Officers in consultation with the Investment Consultant where appropriate.*

- 4.4 The Statement of Investment Principles and Rebalancing Policy will be updated following any changes agreed by Committee.

## **5 INVESTMENT PANEL DELEGATION**

- 5.1 The activity was undertaken under in line with the delegation set out in the Fund's Terms of Reference approved in May 2015:

*The Investment Panel will:*

1. *Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.*
2. *Review the Statement of Investment Principles and submit to Committee for approval.*
3. *Report regularly to Committee on the performance of investments and matters of strategic importance*

*and have delegated authority to:*

4. *Approve and monitor tactical positions within strategic allocation ranges.*
5. *Approve investments in emerging opportunities within strategic allocations.*
6. *Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.*
7. *Approve amendments to investment mandates within existing return and risk parameters.*
8. *Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.*
9. *Delegate specific decisions to Officers as appropriate.*

**6 RISK MANAGEMENT**

6.1 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. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.

6.2 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.

**7 EQUALITIES**

7.1 An equalities impact assessment is not necessary as the report is primarily for information only.

**8 CONSULTATION**

8.1 This report is primarily for information and therefore consultation is not necessary.

**9 ISSUES TO CONSIDER IN REACHING THE DECISION**

9.1 The issues to consider are contained in the report.

**10 ADVICE SOUGHT**

10.1 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>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	