

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	24 FEBRUARY 2016	AGENDA ITEM NUMBER
TITLE:	Review Of Investment Performance For Periods Ending 31 December 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		

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 period ending 31 December 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 18 March 2016.

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. The returns quoted are net of investment management fees.

3 INVESTMENT PERFORMANCE

A – Fund Performance

- 3.1 The Fund's assets increased by £104m (return of c. 2.9%) in the quarter ending 31 December 2015 giving a value for the investment Fund of £3,705m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.
- 3.2 All Equity markets produced positive returns over the quarter in Sterling terms. Emerging Markets was again the worst performing region (+3.1%) whilst the UK All Share Index rose by 4%. Bond yields rose across all maturities over the quarter leading to negative returns from Gilts. Corporate bonds made a small positive performance over the quarter (+0.4%).
- 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 18 March 2016.

B – Investment Manager Performance

- 3.4 A detailed report on the performance of each investment manager has been produced by Mercer – see pages 26 to 46 of Appendix 2.
- 3.5 Jupiter, TT, Invesco, SSgA (Europe and Pacific), Genesis, BlackRock and RLAM are all outperforming their three year performance targets. Schroder property, Schroder global equity and Partners Group are underperforming their respective 3 year targets.
- 3.6 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 have an amber rating, Schroder (global equity mandate) and Partners Group. There is an update on these managers in Exempt Appendix 3. Schroder (property mandate) is marginally underperforming their 3 year target but is within the tolerance level and so retains a green rating – their performance remains above benchmark.

4 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

- 4.1 **Asset Class Returns:** Returns from developed equities and property significantly outperformed the strategic assumptions over three years, whilst emerging market equities and hedge funds underperformed significantly. The corporate bond return has fallen marginally below the three year strategic assumption this quarter.
- 4.2 **Fund of Hedge Funds:** JPMorgan mandate is now fully funded following drawdown of the final tranche in December, funded from the realisation of the outgoing fund of hedge fund mandates.
- 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 in the first half of 2016.

- 4.4 **Bond Portfolio:** Changes to the bond portfolio agreed at the previous meeting are in the process of being implemented.
- 4.5 **Rebalancing:** The Fund's new Rebalancing Policy was approved by Committee in December and now looks at the allocations to each asset class rather than just the equity:bond ratio. As at 10 February:
- (1) Developed market equities were overweight (2.8% above maximum neutral range of 42%) - this overweight will remain pending drawdown of investments for the infrastructure mandate.
 - (2) Emerging market equities are underweight (0.5% below the minimum neutral range of 9%) – yet to rebalance as Mercer outlook is 'neutral' but moving towards 'unattractive'. Given the recent volatility in emerging markets officers are monitoring the position closely.
- 4.6 **MIFID II Update:** The implementation of MiFID II has been formally delayed by a year until 3 January 2018 by the European Commission.

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 Section 151 Officer (Divisional Director – Business Support) has had the opportunity to input to this report and has 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	