

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	25 MAY 2016	AGENDA ITEM NUMBER
TITLE:	Review Of Investment Performance For Periods Ending 31 March 2016	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer performance monitoring report (Panel version) Exempt Appendix 3 – RAG Monitoring Summary Report Appendix 4 – Fossil Fuel Investments and Sustainable Investment Appendix 5 – Mercer: Current Topics		

## **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 March 2016.
- 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 24 June 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 £37m (return of c. 1%) in the quarter ending 31 March 2016 giving a value for the investment Fund of £3,742m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.
- 3.2 Developed market equities all delivered negative returns over the quarter with the UK All Share Index, one of the better performers, falling just 0.4%. Emerging markets in contrast was the best performing region (+8.1% in sterling terms). Bond yields fell across all maturities over the quarter leading to positive returns from Gilts, and corporate bonds contributed a positive performance over the quarter (+3.0%).
- 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 24 June 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, Invesco, SSgA (Europe and Pacific), Genesis, BlackRock and RLAM are all outperforming their three year performance targets. Schroder global equity and Partners Group are underperforming their respective 3 year targets whilst Schroder property and TT although slightly under are broadly in line with their performance target.
- 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 only Schroder (global equity mandate) is rated amber. There is an update on Schroder global equity in Exempt Appendix 3 along with an overview of Partners IRR returns. Schroder (property mandate) and TT are both underperforming their 3 year target but are within the tolerance level and so retain a green rating.

## 4 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

- 4.1 **Asset Class Returns:** Returns from developed equities, index linked gilts, gilts and property outperformed the strategic assumptions over three years, the latter 2 were significantly ahead of the assumed return. Emerging market equities and hedge funds underperformed significantly whilst the UK corporate bond return is marginally below the three year strategic assumption.
- 4.2 **Infrastructure:** \$195m of the Fund's \$300m commitment to infrastructure was drawdown in the fund managed by IFM on 1<sup>st</sup> April.

- 4.3 **Bond Portfolio:** Changes to the bond portfolio agreed at the previous meetings have now been fully implemented.
- 4.4 **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. Following a large drawdown by the infrastructure manager, the overweight to equities has been reduced to within the rebalancing range. As at 11 May there are no allocations outside the rebalancing ranges.
- 4.5 **Current Topics:** Appendix 5 highlights some current topics provided by Mercer for information.

## 5 FOSSIL FUEL INVESTMENTS

- 5.1 Ahead of the planned review of the Fund's responsible investment policy, Appendix 4 from Mercer provides an estimate of the magnitude of the Fund's exposure to carbon (much more detailed analysis will form part of the review), and an overview of opportunities in sustainable investing.
- 5.2 All of the Fund's active equity managers are currently underweight the oil and gas sector. Current weights relative to benchmark of the Fund's active equity managers for the oil and gas sector are as follows:

Manager	Oil & Gas Benchmark Weight	Oil and Gas Manager Weight
Jupiter (UK SRI mandate)	10.6%	0%
TT (UK equity mandate)	10.6%	7.8%
Schroder (global equity mandate)	6.5%	6.2%
Genesis (emerging markets equity mandate)	7.7%	3.7%
Unigestion (emerging markets equity mandate)	7.7%	4.1%

- 5.3 The Fund has also been active in supporting LAPFF's engagement with Companies on carbon exposure risks. The Fund is a co-filer on shareholder resolutions on strategic resilience at Rio Tinto, Glencore and Anglo American, all of which have received support from company management. The resolutions ask for commitment to reporting on emissions management, low carbon research and development, key performance indicators and public policy positions. This follows successful resolutions at BP and Shell in 2015 with Chevron and Exxon to follow in May 2016.

## 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. 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.

## 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.

## **10ADVICE SOUGHT**

10.1 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.

<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>	