

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	2 September 2019	AGENDA ITEM NUMBER
TITLE:	Review of Investment Performance for Periods Ending 30 June 2019	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – Fund Valuation</p> <p>Appendix 2 – Mercer Performance Monitoring Report</p> <p>Exempt Appendix 3 – RAG Monitoring Summary Report</p> <p>Appendix 4 – Brunel Quarterly Performance Report</p> <p>Appendix 5 – Audit Log of Strategic Investment Decisions</p>		

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 30 June 2019.
- 1.2 The report focuses on the performance of the individual investment managers and the implementation of the investment strategy. The full performance report with aggregate investment and funding analysis will be reported to the Committee meeting on 27 September 2019.
- 1.3 This quarter the Mercer risk monitoring report that usually forms Exempt Appendix 4 to this report (and covers the performance of the Liability Driven Investing and Equity Protection Strategies) is included in Item 10 – Annual review of Risk Management Strategies.
- 1.4 Appendix 5 is for reference only; it shows the implementation of strategic decisions following the 2017 Strategic Review.

2 RECOMMENDATION

That the Panel:

- 2.1 Notes information as set out in the reports.**
- 2.2 Identifies any issues to be notified to the Committee.**

3 FINANCIAL IMPLICATIONS

- 3.1 The returns achieved by the Fund for the three years commencing 1 April 2019 will impact the next triennial valuation which will be calculated as at 31 March 2022. The returns quoted are net of investment management fees.

4 INVESTMENTS UPDATE

A – Fund Performance

- 4.1 The Fund's assets increased by £127m (c.2.6%) in the quarter ending 30 June 2019 giving a value for the investment Fund of £4,946m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.
- 4.2 Global equity markets rebounded from sharp falls in May to end the second quarter of the year on a positive note, largely on the back of strong gains in June. To this end, overseas equities were the largest contributor to Fund performance over the quarter. US interest rate policy and US-China political rhetoric continues to drive market sentiment. Emerging Markets also recovered from a sharp sell-off during May to end the quarter in positive territory. Developed market government bond yields fell over the quarter which supported credit markets. The premium offered by corporate bonds over government bonds, which reflects the higher level of risk of these assets, narrowed which translated into positive returns for the Fund's Multi Asset Credit mandate. Among the Fund's holdings in alternative asset classes Infrastructure was the standout performer with several of the underlying assets receiving valuation uplifts. Amongst currencies, Sterling weakened against the US Dollar, the Euro and the Yen by 2.3%, 3.7% and 4.9%, respectively – this meant the currency hedge detracted c.0.8% from total Fund returns.
- 4.3 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 September 2019.

B – Investment Manager Performance

- 4.4 A detailed report on the performance of each investment manager has been produced by Mercer – see pages 22 to 41 of Appendix 2.
- 4.5 Brunel now reports on the performance of the assets they manage on behalf of the Fund. The report for each Brunel portfolio can be found in Appendix 4. However, Mercer will continue to provide quarterly commentary and analysis of all the Fund's mandates and at the strategic total fund level.
- 4.6 Manager absolute returns over the quarter were largely positive, with global equities, hedge funds, infrastructure, credit and DGFs posting positive absolute returns. On a relative basis, active managers generally matched and/or exceeded benchmark returns. Over the 12 months to 30 June the majority of our managers posted positive absolute returns but struggled to outperform on a relative basis. This was also true of 3 year returns, where the majority of managers posted positive absolute returns but failed to keep pace with their respective benchmarks.
- 4.7 Exempt Appendix 3 summarises the latest internal report used by officers 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.

C – Risk Management Framework Quarterly Monitoring Report

4.8 A detailed report of the performance of the Fund's risk management strategies is presented in Exempt Appendix 1 to Item 10: Annual Review of Risk Management Strategies.

5 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1 **Asset Class Returns versus Strategic Assumptions:** Developed market equity returns over the last 3 years were 14.2% p.a., ahead of the assumed strategic return of 8.1% p.a. on the same basis. The 3 year return from emerging market equities was 12.5%; well ahead of the assumed 3 year return of 8.7%. Over the three-year period index-linked gilts returned 6.0% p.a. versus an assumed return of 2.2%. Similarly, property and infrastructure are ahead of their assumed strategic returns on a 3 year basis. Hedge fund returns remain below long-term averages and the strategic return of 5.1% p.a.

5.2 **Rebalancing:** There was no rebalancing activity during the quarter.

5.3 **Corporate Bond Portfolio:** During April/May 2019 the Fund's LDI manager was instructed to implement a buy-and-maintain corporate bond portfolio as part of a bespoke cash flow matching strategy. This strategy was created to cash flow match the 'low-risk' bucket of liabilities that are valued on a corporate bond basis, in order to reduce funding risk in respect of these liabilities and will be inflation hedged (asset value). Performance will be monitored as part of the routine risk report Mercer presents to Panel each quarter.

5.4 **Private Markets Investments:** The Fund has an allocation of 2.5% to Renewable Energy (on a look through basis) which is managed by Brunel. The drawdown of the committed capital started in Dec 2018 and further investments were made to two funds in 2Q19, both of which have a primary focus on proven renewable energy technology, encompassing: onshore wind, solar PV, hydro and electricity storage assets. The additional funds are seen as largely complementary to the existing funds (which focus on sustainable and social infrastructure such as mass transport and hospitals as well as renewable energy) in terms of regional diversification and projected fund lifespans.

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. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider are contained in the report.

9 CONSULTATION

9.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

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Background papers	Data supplied by Mercer, Brunel & State Street Performance Measurement
Please contact the report author if you need to access this report in an alternative format	