

Bath & North East Somerset Council

MEETING:	Avon Pension Fund Committee	
MEETING DATE:	24 June 2011	AGENDA ITEM NUMBER
TITLE:	Review Of Investment Performance For Periods Ending 31 March 2011	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report		

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic areas concerning the Fund's investments.

1.2 This report contains performance statistics for periods ending 31 March 2011.

1.3 The main body of the report comprises the following sections:

Section 4. Investment Performance: A - Fund, B - Investment Managers.

Section 5. Investment Strategy

Section 6. Funding Level Update

Section 7. Portfolio Rebalancing and Cash Management

Section 8. Corporate Governance and Socially Responsible Investment (SRI) Update

2 RECOMMENDATION

That the Avon Pension Fund Committee:

2.1 Notes the information as set out in the report.

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund for the three years commencing 1 April 2010 will impact the next triennial valuation which will be calculated as at 31 March 2013. Section 6 of this report discusses the Fund's liabilities and the funding level.

4 INVESTMENT PERFORMANCE

4.1 JLT's report in Appendix 2 provides a full commentary on the performance of the fund (pages 15 to 20), the investment managers (pages 21 to 42) and a commentary on investment markets (pages 5 to 11). In the section on the Fund (page 15), three year rolling returns are included to provide a longer term perspective.

A – Fund Performance

4.2 The Fund's assets rose in value by £204m (+7.8%) over the previous 12 months and £32m (+0.9%) in the quarter, giving a value for the investment Fund of £2,658m at 31 March 2011. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.3 The Fund's investment return and performance relative to benchmarks is summarised in Table 1.

Table 1: Fund Investment Performance, periods to March 31 2011

	3 months	12 months	3 years (p.a.)
Avon Pension Fund	0.9%	7.8%	6.3%
Strategic benchmark <i>(Fund relative to benchmark)</i>	1.4% <i>(-0.5%)</i>	8.2% <i>(-0.4%)</i>	5.2% <i>(+1.1%)</i>
Customised benchmark <i>(Fund relative to benchmark)</i>	1.2% <i>(-0.3%)</i>	7.8% <i>(=)</i>	7.0% <i>(-0.7%)</i>
Local Authority Average Fund <i>(Fund relative to benchmark)</i>	1.3% <i>(-0.4%)</i>	8.2% <i>(-0.4%)</i>	5.4% <i>(+1.3%)</i>

4.4 **Avon Pension Fund:** Quarterly return driven mainly by the growth in equity markets (except Japanese equities) offsetting the small negative returns of bonds over the period. Annual return driven by positive returns across all asset classes especially equities and property.

4.5 **Versus Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds):** Annual relative underperformance driven by Fund holding a little cash over the period and being slightly underweight equities and overweight bonds (versus the benchmark) in the 3rd Quarter of 2010 when equities performed well and bonds did not achieve their benchmark return.

4.6 **Versus Customised Benchmark (which reflects the individual benchmarks of each manager and as such, measures the relative performance of the managers as a whole):** Annual performance matched the benchmark, with outperformance of Jupiter, Royal London, and Partners offset by

underperformance of TT, Lyster Watson and Stenham. The other managers performing broadly in line with their benchmarks.

4.7 **Versus Local Authority Average Fund:** Annual relative underperformance driven by Fund's lower than average allocation to equities which performed positively over the year, and higher than average allocation to hedge funds which did not match the returns made by equities.

4.8 The initial estimate for the Fund's return in April is 1.4%.

B – Investment Manager Performance

4.9 A detailed report on the performance of each investment manager has been produced by JLT – see pages 21 to 42 of Appendix 2. Their report does not identify any performance issues with the managers.

4.10 Implementation of the decisions taken following the review of the Fund's investments in hedge funds will take place in the coming quarter and involve a reallocation between the Fund's hedge fund managers and the full redemption from Lyster Watson.

4.11 The Committee agreed in December 2010 to appoint Schroder to manage the Fund's active global equity mandate. Following a managed transition process, the assets were transferred to Schroder on 20 April 2011.

5 INVESTMENT STRATEGY

5.1 JLT's report notes the changes to the strategic allocation that were implemented this quarter following a decision by the Committee to increase the allocation to overseas equities and reduce the allocation to UK equities within the equity portfolio. This implementation was completed with the transition of assets to Schroder described above.

5.2 The appointment of an active currency hedging service for the Fund is the subject of a paper elsewhere in the agenda. The decision to implement an active currency hedge was an action that came out of the conclusions following the strategic investment review in 2009.

6 FUNDING LEVEL UPDATE

6.1 As at 31 March 2011 the Actuary has estimated that the funding level has marginally increased to 83% from 82% at 31 March 2010.

6.2 Over the year the value of the assets rose by c.8% and liabilities increased by 6% (to £3,193m). The liabilities have increased as the discount rate has been unwound by one year (i.e. one year of interest has been added to the liabilities since 31 March 2010). This revised funding level takes into account benefit payments and contributions received during the period.

6.3 Table 2 shows the change in financial assumptions (real yields were unchanged):

Table 2: **Change in Financial Assumptions**

	31 March 2010	31 March 2011
UK Gilt yield	4.50%	4.40%
Real yield	0.70%	0.70%
Implied RPI inflation p.a.	3.80%	3.70%
Inflation adjustment p.a.	0.80%	0.80%
CPI Inflation p.a.	3.00%	2.90%

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The rebalancing policy requires rebalancing of the Equity/Bond allocation to occur when the equity portion deviates from 75% by +/- 2%, and the valuation metric, in this case the equity gilt yield ratio, confirms that the relative valuation between equities and bonds is favourable. The implementation of this policy is delegated to officers.

7.2 There was no rebalancing undertaken this quarter. As at 31 March 2011 the Equity:Bond allocation was estimated at 76:24.

Cash Management

7.3 Cash is not included in the strategic benchmark. However, cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The segregated portfolios, TT, Jupiter and BlackRock utilise money market funds offered by the custodian, BNY Mellon. The cash within the pooled funds is managed internally by the manager. The cash managed by BlackRock in the property portfolio is invested in the BlackRock Sterling Liquidity Fund. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.

7.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies and are invested in line with the Fund's Treasury Management Policy which was approved on 18 December 2009. The Fund adopts the Council's counterparty list and the latest list approved by the Council in February 2011.

8 CORPORATE GOVERNANCE AND SRI UPDATE

8.1 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds.

8.2 LAPFF's current activity includes:

(1) Pay and Non-Monetary Reward

LAPFF has co-signed a letter to the SEC urging regulation to require companies to disclose median employee compensation. Such disclosure would encourage moderation of American CEO pay by providing a more accurate picture of worldwide compensation practices. This is in addition to LAPFF current project on identifying ways in which non-monetary rewards can be used by companies.

(2) Engagement on Carbon Disclosure Project (CDP)

LAPFF is collaborating with other investors in a UNPRI engagement initiative to improve the quality of climate change reporting by companies to investors. The CDP enables investors to better understand companies' greenhouse gas emissions, preparedness for climate change and strategy to respond to global climate change.

9 RISK MANAGEMENT

9.1 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 return of the strategic benchmark and the performance of the investment managers. An 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.

10 EQUALITIES

10.1 This report is primarily for information and therefore an equalities impact assessment is not necessary.

11 CONSULTATION

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

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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Background papers	LAPFF Member Bulletins, Data supplied by The WM Company
Please contact the report author if you need to access this report in an alternative format	