Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 7th September, 2011, 9.30 am

Members: Councillor Charles Gerrish (Chair), Councillor Mary Blatchford, Andy Riggs (Reserve) (In place of Bill Marshall) and Ann Berresford
Advisors: Tony Earnshaw (Independent Advisor) and John Finch (JLT Investment Consultancy)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager) and Matthew Betts (Assistant Investments Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Gabriel Batt, Councillor Nicholas Coombes and Bill Marshall, for whom Andy Riggs substituted.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

5 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 12 JANUARY 2011

These were approved as a correct record and signed by the Chair.

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2011

The Assistant Investments Manager said that although investment report was presented quarterly, it was the yearly and three-yearly performance that was significant for the Fund. Over the year the Fund had earned a return of 16.5%, with positive returns across all asset classes, especially equities. In aggregate the managers had marginally underperformed their benchmarks over the year with underperformance from Jupiter, TT, Stenham and Lyster Watson offsetting positive performance elsewhere in the portfolio. Over the quarter there had been a return of 1.5%, which was in line with the benchmark.

There were three strategic issues to be noted:

1. The implementation of the currency hedging programme had commenced in July with the appointment of Record as the active currency hedging manager.

2. The changes to the hedge fund allocations approved by the Committee had been implemented.

3. Exposure of the Fund to Euro and European financials. This was summarised in Appendix 3 of the report, an updated version of which was tabled.

The Actuary's quarterly estimate of the funding level of the Fund was 82% as at 30 June 2011.

The Assistant Investments Manager clarified that "ESG" in paragraph 8.2 stood for "environmental, social and governance".

The Investments Manager said that as the actuary's estimate of funding level was only received at the end of each quarter, the impact of the latest market turbulence, with yields on gilts at their lowest for a century, was not yet known.

Mr Finch presented the JLT investment review. He said that the report was already outdated to a greater extent than usual, because of market turbulence since 30 June. For example, the report refers to yields on long-term gilts of over 4%, whereas the previous day they had been down to 3.5-3.6%. Current yields on gilts were unprecedented. Markets were concerned that interest rates were likely to remain low for some time. Some time ago fears had been expressed that the UK's credit rating might be downgraded, but since then debt crises had emerged in Spain, Greece and Portugal, while the UK had persuaded markets that it was addressing its own debt problems, though the rhetoric about this might be tougher than the reality. The Avon Pension Fund was slightly underweighted in equities, so was maybe slightly better placed than other local authority pension funds. Corporate bonds yields had fallen, but not as much as government bonds, and the differential between corporate and government bond yields had increased.

Page 14 of the JLT report gave a snapshot of allocations and values at 30 June 2011. Since then there had been total disinvestment from Lyster Watson and the allocation to Man had been reduced.

The Chair asked about the statement that because of data timing issues returns for the Partners' portfolio are lagged by a quarter in the performance reports. He was uncomfortable with this, and felt that if the Panel and the Committee were to monitor this portfolio effectively they needed more up-to-date information. He wondered whether Partners could be persuaded to release information earlier, or whether there were alternative sources of information. The Investments Manager explained that information from Partners is not received in time for WM to calculate the performance statistics in time for the Panel meetings, which occurred earlier in the quarter than meetings of the full Committee. Members agreed that a verbal report on Partners performance will be required at meetings of the Panel and Committee.

Mr Finch highlighted the following issues with the investment managers. Jupiter had underperformed over 12 months, but this was because of the nature of the mandate. JLT had concerns about TT's overall strategy, which the Panel might want to put to them when they attended the workshop later today. The Panel might also wish to consider the recent large drop in the size of SSgA-Europe ex-UK pooled fund. There was no reason to think this would necessarily result in a fall in performance, and the fund was performing well at the moment. With the growth of global mandates, regional funds not as popular with institutional investors. He would have no concerns about the APF being the only investor in the fund, provided that SSgA-Europe was committed to maintain its current mode of operation. It would unwise to change the mandate while performance was good, but the situation should be monitored. A dip in performance might indicate that it was time to review APF's allocation in this fund.

Mr Finch drew attention to the graph of TT's relative returns on page 25 of the JLT report, which showed a rolling three-year deterioration. He suggested that the workshop should focus on this, what they were doing to address it, and whether they were making appropriate adjustments in response to current economic conditions.

A Member asked about the reliance of investment managers on computer models. Mr Finch replied that TT was an active manager, using fundamental analysis rather than quantitative modelling and had used a valuation matrix for many years. It was vital for investment managers to consider which companies were likely to do well in the current economic climate. It was unlikely that there would be a strong recovery, but some companies would do well, and when some of the present uncertainties had abated it was quite likely that there would be a spate of mergers and acquisitions. SSgA uses quantitative models with limited managers' judgement.

RESOLVED

1. To note the Fund's return on investments and details of managers' performance as set out in the report.

2. To bring to the attention of the Avon Pension Fund Committee (as recorded in the Performance Report in a later agenda item):

    a. The Panel's request that Officers verbally update the Panel and Committee on the latest performance of Partners where necessary.

    b. The Panel's intention to invite SSgA to the next Investment Panel meeting to allow the Panel to fully assess the current situation with regard to the overall size of the SSgA pooled funds in which the Fund is invested.

The meeting ended at 10.30 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services