

Bath & North East Somerset Council

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| MEETING: | Avon Pension Fund Investment Panel | |
| MEETING DATE: | 22 NOVEMBER 2011 | AGENDA ITEM NUMBER |
| TITLE: | SSGA Pooled Funds | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: Exempt Appendix 1 – 20 October Workshop: Summary of Investment Panel conclusion Exempt Appendix 2 - Additional Information - Options | | |

1 THE ISSUE

- 1.1 This paper summarises the impact of the reduction in size of the SSgA pooled funds in which the Avon Pension Fund is invested.
- 1.2 The issue was raised by the Committee and addressed when SSgA presented to the Investment Panel at a workshop on 20 October 2011.

2 RECOMMENDATION

- 2.1 **The Investment Panel recommends to the Avon Pension Fund Committee that no further action is required and that Officers will continue to monitor fund size as part of their on-going monitoring.**

3 FINANCIAL IMPLICATIONS

- 3.1 There is a potential impact on costs should there be any change to the investment manager structure. Careful analysis would be undertaken on the impact of any change in costs before any changes would be made.

4 ISSUE

- 4.1 Following a reduction in the size of the SSgA pooled funds in which the Fund invests in, the Committee expressed concerns at the potential impact on performance and costs due to smaller economies of scale, and sought reassurance from SSgA of their continued commitment to these funds.
- 4.2 As at 30 Sept 2011 the Fund holds £25m of a total of £30m in SSgA's European ex-UK enhanced index fund, and £52m of a total of £57m in SSgA's Pacific enhanced index fund.
- 4.3 Exempt Appendix 1 provides further details provided by SSgA in response to the questions raised which have been summarised below.

5 IMPACT ON COSTS AND PERFORMANCE

- 5.1 The information provided by SSgA satisfied the Panel that the impact on costs of the redemptions by other investors and impact on administration and management costs of a smaller fund do not impact remaining investors. When investors divest they bear the full costs of the transaction. The size of the funds are still at a level at which optimal economies of scale are achievable.
- 5.2 SSgA explained how the investment process and development resources put into the model would not be affected by the reduction in fund size. The Panel were reassured that performance would not be adversely affected by the reduction in fund size.
- 5.3 The funds in question are still of a size that is considerably above the size at which SSgA would begin to question commercial viability and therefore it is very unlikely that while the Fund continues to be an investor SSgA would seek to close the funds. SSgA manage other pooled funds where there is only one investor.
- 5.4 Given SSgA's commitment to their enhanced indexation strategy the Panel felt it unlikely that SSgA would stop supporting the development of the model (from which the funds the APF is invested will continue to benefit).

6 ALTERNATIVE OPTIONS

- 6.1 In addition to the information considered at the Investment Panel at a workshop on 20 October 2011, in the event that these funds were closed, Officers have identified the 4 alternative options and these are explained in Exempt Appendix 2.
- 6.2 For the reasons set out in Exempt Appendix 2, these alternative options all have advantages and dis-advantages but when compared with the current arrangements material drawbacks have been identified.

7 CONCLUSIONS

7.1 The Panel were reassured that SSgA remained committed to the pooled funds and that it would not suffer a reduction in resourcing or from a negative impact on costs.

7.2 Given the minimal impact of the reduction in size on costs and performance, the low probability that SSgA closes the funds, and the dis-advantages associated with alternative options, it is recommended no further action is taken and that Officers continue to monitor the size of the funds as part of their on-going monitoring.

8 RISK MANAGEMENT

8.1 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.

9 EQUALITIES

9.1 This report is primarily for information only.

10 CONSULTATION

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

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 The issues to consider are contained in the report.

12 ADVICE SOUGHT

12.1 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 | |
| Please contact the report author if you need to access this report in an alternative format | |