

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	9 December 2011	AGENDA ITEM NUMBER
TITLE:	RECOMMENDATIONS FROM THE INVESTMENT PANEL	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

- 1.1 The Investment Panel is responsible for exploring investment issues including the investment management arrangements and the performance of the investment managers, and making recommendations to the Committee.
- 1.2 The Panel has held one meeting since the September 2011 committee meeting and the recommendations from the Panel are set out in this report. The minutes of the Investment Panel meeting provide a record of the Panel's debate before reaching any recommendations. These can be found in an earlier agenda item.
- 1.3 Following a reduction in the size of the SSgA pooled funds in which the Avon Pension Fund (APF) invests in, the Committee expressed concerns, and requested the Investment Panel consider the potential impact on performance and costs due to smaller economies of scale, and to seek reassurance from SSgA of their continued commitment to these funds.

2 RECOMMENDATION

- 2.1 **That the Committee agrees the recommendation from the Investment Panel regarding the SSgA Pooled Funds:**
 - (i) **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 BACKGROUND

- 4.1 Following the request by the Committee to consider the potential impact of the reduction in size of the SSgA funds, the Investment Panel received a presentation from SSgA at a workshop on 20 October 2011 and subsequently considered a paper on the issue at the Investment Panel meeting on 22 November 2011.
- 4.2 SSgA provided information on the potential impact on costs and performance, their commitment to the funds and the overall strategy they employ. They also outlined the current breakdown of assets under management and the reasons behind the fall in amount managed in enhanced indexation strategies (the SSgA funds in question fall under these strategies).
- 4.3 The Panel were satisfied that:
- (i) The APF was not affected by the costs of other investors leaving the funds, and the impact on on-going administration and management costs of a smaller fund do not negatively impact remaining investors.
 - (ii) Performance would not be adversely affected by the reduction in fund size as the portfolio models are all generated from the same underlying quant process.
 - (iii) 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. Also, 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).
 - (iv) SSgA manage other regional enhanced indexation funds tailored for individual clients or group of clients (such as a managed pension fund series for UK pension funds) and recognise that this is required in order to provide appropriate investment vehicles.

5 CONCLUSION

- 5.1 The Panel were reassured that SSgA remained committed to the pooled funds and that performance would not suffer from a reduction in resourcing or from a negative impact on costs.
- 5.2 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.

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. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues being considered are contained in the report.

10 ADVICE SOUGHT

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

Contact person	Liz Feinstein, Investments Manager 01225 395306
Background papers	Investment Panel reports and minutes.