

PENSIONS COMMITTEE
28 JUNE 2016**PENSION INVESTMENT UPDATE**

Recommendation

- 1. The Chief Financial Officer recommends that:**
 - a) the Independent Financial Adviser's fund performance summary and market background be noted;**
 - b) the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted; and**
 - c) the termination of the Capital International mandate and transition of the assets to the LGIM passive equity portfolio be noted.**

Background

2. The Committee will receive regular updates on fund performance. The fund's Independent Financial Adviser has provided a fund performance summary and a brief market background update (Appendix 1). The market background update is provided to add context to the relative performance and returns achieved by the fund's investment managers.
3. The Committee will also receive regular updates regarding 'on watch' managers and will receive recommendations in relation to manager termination in the event of a loss of confidence in managers by the Advisory Panel (Appendix 1).

Nomura

4. Nomura underperformed the index benchmark in the quarter ended 31 March by 1.7% but in the twelve months to March 2016 had outperformed the benchmark by +1.0%, which was 0.5% behind the target outperformance of +1.5%. Over the past three years Nomura have underperformed their performance target by 1.0% per annum.
5. The ex-Japan elements of the portfolio detracted from total portfolio performance in Q1 of 2016 and Nomura remain passively invested in Australia, in terms of stock selection, whilst having struggled to retain expertise in this market.
6. Although it is recognised that portfolio performance has improved, it is recommended that a further period of sustained outperformance is required from both the Japan section of the portfolio as well as the developed Asia ex-Japan section before Nomura are taken off watch. The fee discount for the Asia ex-Japan

section of the mandate remains in place until rolling three year performance reaches target.

Capital International

7. Capital International's mandate was terminated following the decision by the Committee at its meeting on 27 April 2017 (Minute no. 39 refers) and the portfolio assets were transitioned to the North America section of the LGIM passive equity portfolio.

JP Morgan – Emerging Markets

8. JP Morgan (Emerging Markets) portfolio underperformed their benchmark over the quarter by 0.7%. Performance for the year ended March 2016 was 1.2% ahead of benchmark and therefore 0.8% behind their target outperformance of +2.0% per annum. Over the past three years JP Morgan have underperformed their performance target by 1.0% per annum.

9. It is recommended that JP Morgan remain 'on watch' until consistent outperformance is regained.

JP Morgan – Bonds

10. The JP Morgan Bond portfolio underperformed their benchmark by 0.3% in the quarter ended March 2016. Performance for the year ended March 2016 was 0.2% behind benchmark and therefore 1.2% behind their target outperformance of +1.0% per annum. Over the past three years they have underperformed their performance target by 0.7% per annum. Concerns still exist that JP Morgan have not utilised their risk budget effectively in order to achieve their performance target.

11. It is recommended that JP Morgan (Bonds) remain on watch at least until their performance is tracking towards target and the Committee are satisfied that JP Morgan are managing their portfolio risk budget effectively.

Contact Points

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Supporting Information

- Independent Financial Adviser summary report (Appendix 1)
- Bar Chart of investment managers' performance (Appendix 2)

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.