

PENSIONS COMMITTEE

26 SEPTEMBER 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) Fund Officers are instructed to start fee discount negotiations with JP Morgan (Bonds).**

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 outperformed the index benchmark in the quarter ended 30 June by 0.8% but in the twelve months to June 2016 had underperformed the benchmark by 0.4%, which was 1.9% behind the target outperformance of +1.5%. Over the past three years Nomura have underperformed their performance target by 0.5% per annum.
5. The ex-Japan elements of the portfolio contributed +0.6% to total portfolio performance in Q2 of 2016. Nomura informed the Pension Investment Advisory Panel of their intention to return to active stock selection in Australia during Q3 of 2016.

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.

JP Morgan Emerging Markets

7. JP Morgan (Emerging Markets) portfolio underperformed their benchmark over the quarter by 1.2%. Performance for the year ended June 2016 was 0.3% ahead of benchmark and therefore 1.7% behind their target outperformance of +2.0% per annum. Over the past three years JP Morgan have underperformed their performance target by 2.8% per annum.

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

JP Morgan Bonds

9. The JP Morgan Bond portfolio underperformed their benchmark by 0.1% in the quarter ended June 2016. Performance for the year ended June 2016 was equal to benchmark and therefore 1.0% behind their target outperformance. 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 and that the portfolio manager responsible for the mandate has been changed.

10. 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. It is also recommended that Fund Officers are instructed to start fee discount negotiations with JP Morgan in light of their continued underperformance against the required +1.0% outperformance target.

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) the following are the background papers relating to the subject matter of this report.