

Pensions Committee

30 September 2015

5. 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; and**
 - b) **the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Committee be noted.**

Background Information

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 Committee (Appendix 3).

Nomura

4. Following a recommendation from the Pension Investment Advisory Committee for the fund's officers to carry out due diligence on Nomura's controls and processes, the Principal Accountant – Pension Fund attended a number of meetings with Nomura's representatives at their offices in London and provided a briefing note to the committee (Appendix 3). No control issues were identified, however knowledge was gained with regards to their investment decision making process.

5. Nomura outperformed the index benchmark in the quarter ended 30 June by +1.8% and in the twelve months to June 2015 had outperformed the benchmark by +2.8%, which was 1.3% ahead of the target outperformance of +1.5%. However over the past three years Nomura have underperformed their performance target by 1.0% per annum.

6. Nomura's management changes in the Developed Asia ex-Japan section of the portfolio appear to have been successful, however they are remain passively invested in Australia and have struggled to retain

expertise in this market.

7. It is recommended that a further period of sustained outperformance is required before Nomura are taken off watch.

Capital International

8. Capital International outperformed the index benchmark in the quarter ended 30 June by +1.0%. Their twelve month performance to June 2015 was 4.4% ahead of benchmark and therefore 2.9% ahead of their performance target (+1.5%). This strong recent performance has meant Capital have now outperformed their performance target by 0.7% per year for the past three years.

9. It is recommended that Capital International remain on watch at least until their extended discounted fee period ends in December 2015.

JP Morgan

10. JP Morgan (Emerging Markets portfolio) have continued to struggle providing a 0.4% underperformance against their benchmark in the quarter ended 30 June. Performance for the year ended June 2015 was 1.9% behind benchmark and therefore 3.9% behind their target outperformance of +2.0% per annum. Over the past three years they have underperformed their performance target by 2.4% per annum.

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

Supporting Information

- Independent Financial Adviser summary report (Appendix 1)
- Bar Chart of investment managers' performance (Appendix 2)
- Nomura - review of controls and processes (Appendix 3)

Contact Points

County Council Contact Points

Sean Pearce, Chief Financial Officer, 01905 766268,
spearce@worcestershire.gov.uk

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 the report.